Sects. II-27—40,000—14-10-36.

Development (193) Department.

MS SERIES.

G.O. No. 1484

DATED 5-7-37

[Despatch Abstract.]

CR no. 41/36
17.11.36.

Dw. 3866 D
19.11.36

To

The Secretary To the Government of Madras,

Development Depart,

Fort St. George,

MADRAS.

THE HOSPET CO-OPERATIVE TOWN BANK LTD. No. 1809 5783 HOSPET
ASSISTANT SECRETARY TO GOVERNMENT 19 NOV 1936 DEVELOPMENT DEPARTMENT

Subject:-- Appeal under Section 57 of the Madras Co-operative Societies Act VI of 1932, for revision of the Audit certificate for 1934-35, of the Hospet Co-operative Town Bank.

Honoured Sir,

The appeal petition of the Board of Directors of the Hospet Co-operative Town Bank Ltd., consisting of --

1. M.R.Ry. T.S.Krishna Rao, B.A., 1st grade Pleader (president)
2. " B.Srinivasa Rao, Land-lord, Director.
3. " S.Bhima Rao, Mil owner, Do.
4. " V.L.Narayana Rao, B.A., L.T., Do.
5. " Dr. A.K.Prasad, L.M.P., Do.
6. " B.Venkana Bhat, Inamdar, Secretary.
7. " H.Govindachar, Land-lord, Assistant Secretary.
8. " G.Narayana Bhat, Land-lord, Director.
9. " M.Nagappa, Land-lord, Do.
10. " G.Kyadigeppa, Sowcar, Do.
11. " K.Raghunatha Rao, Superintendent of Elementary Schools, Director.
12. " U.Raja Rao, Clerk, Co-operative Central Bank, Hospet, Director.

& 13. " P.Ramachandra Rao, B.A., Jahagirdar, Director.

most humbly and respectfully showeth:--

Enc. 6

1. That the Board of Directors submitted an appeal under Section 57 of Act VI of 1932 to the Registrar of Co-operative Societies, Madras in C.R.No. 25/36 dated 6-7-1936 against the audit certificate issued by the Deputy Registrar, Bellary, dated 28th August 1935 and prayed for a revision of the same (A copy of the said appeal petition is herewith produced).

2. The Registrar in his card No. B 4901/36 dated

10-7-1936 replied that the appeal petition would receive attention but in his card No. X N Dis. Dated 6-10-36 wrote that the appeal petition No. Cr. 25/36 had been forwarded to the Deputy Registrar, Bellary, for disposal. Section 57 of Act VI of 1932 authorises the Registrar to modify, annul or reverse the proceedings of the Deputy Registrar. It is regretted that the Registrar instead of exercising the powers vested in him by the Act should forward the petition for disposal to the Deputy Registrar who was not well disposed towards the Board of Directors. (Vide paras 10 and 11 of the appeal petition. This procedure is unwarranted by law and against all canons of Justice, equity and good - conscience. Naturally the Deputy Registrar would support his certificate and pass adverse remarks on the appeal petition. The Registrar finally sent his reply No.B.4901/36 dated 31-10-36 declining to interfere, without assigning reasons.

3. Berore 1934--35 a dividend of not less than 5½ per cent was declared and the Society earned good profit in the said year. If in the fact of a good profit, a low dividend of 2½ per cent is declared it would seriously undermine the stability of the Bank. It might suddenly entail a withdrawal of deposits and share capital. The Directors are even prepared to declare a dividend of 5 per cent. At the same time they are alive to the fact that if the honorarium of the Secretary and Assistant Secretary is also reduced the Bank cannot make good progress with a discontented staff.

4. In these circumstances and in view of inordinate dalay the Directors appeal to you, Honoured Sir, to pass orders revising the audit certificate of the Deputy Registrar in the lines suggested by the Directors of the Bank in letter No. 21/35 dated 21-11-35.

H o s p e t.)
Dated 17-11-36)

For the Board of Directors
of the
Hospet Co-operative Urban Bank Ltd
H o s p e t.

CR 25/36
6.7.36

3

To

The Registrar of Co-operative Societies,

M A D R A S.

THE HOSPET CO-OPERATIVE TOWN BANK LTD. No. 1688 6/38. HOSPET

Subject:-- Appeal under Section 57 of the Madras Co-operative Societies Act VI of 1932, for revision of Audit certificate for 1934--1935, of the Hospet Co-operative Urban Bank.

Sir,

The Appeal petition of the Board of Directors of the Hospet Co-operative Town Bank Ltd,, consisting of

1. M.R.Ry. T.S.Krishna Rao, B.A., 1st grade Pleader. (President).
2. " B.Srinivasa Rao, Land-lord (Director).
3. " S.Bhima Rao, Mil owner, Do.
4. " V.L.Narayana Rao, B.A., L-T-- Do.
5. " Dr. A.K.Prasad, L.M.P., Do.
6. " B.Venkana Bhat, Inamdar, Secretary.
7. " H.Govindachar, Land-lord, Assistant Secretary.
8. " G.Narayana Bhat, Land-lord, Director.
9. " M.Nagappa, Land-lord, Do.
10. " G.Kyadigeppa, Sowcar, Do.
11. " K.Raghunatha Rao, Superintendent of Elementary Schools, Director.
12. " U.Raja Rao, Clerk, Co-operative Central Bank, Hospet, Director.

Encl 5

& 13. " P.Ramachandra Rao, B.A., Jahagirdar, Director.

most respectfully showeth:--

2. That the Deputy Registrar in para 6 of the audit certificate dated 28-8-1935 had set apart a sum of Rs.1168/- for the credit of bad debt reserve, making up a total of Rs.1961/- and leaving only Rs.1731-7-0. If one fourth of this amount was carried to the reserve fund, then the amount available for distribution in accordance with other clauses of the Bye-law was Rs.1291-1-0. This amount would be quite inadequate to declare a dividend at the rate of 5 per cent. The Bank requested the Deputy Registrar in C.R.No. 16/35 dated 10-9-35 in pursuance of resolution No. 93 of 5-9-35 to -- provide for the bad debt reserve at 5% only in accordance with the bye-law 55 (2) d.

to file of p 8 of (A)

3. That the Deputy Registrar in his F.Dis.No.2523/35 dated 27-9-35, while commenting on the said bye-law, regretted his inability to revise the audit certificate. Further he was pleased to add that the cutting off a sum of Rs.1168/- was in the best interests of the Bank. After a careful consideration of the Deputy Registrar's letter, the Bank again requested the Deputy Registrar in C.R.No. 21/35 dated 16-10-35 to revise the audit certificate in view of the fact that the bye-law No. 55(2)d provided for the bad debt reserve only at 5 per cent at the instance of the General Body, and that his arbitrary deduction of Rs.1168/- defeated the very principle of the bye-law, amounting to its violation and encroachment of the powers of the General Body. The Deputy Registrar, who should have insisted on the strict observance of bye-laws by the Bank had begun to ignore them himself to suit his own whim.

4. That the Deputy Registrar refused to reconsider his letter No. F.Dis.B 2523/35 dated 27-9-35 in his letter No.2982/35 dated 12-11-35. The Bank was put to the painful necessity of repeating its request for reconsideration of the audit certificate in C.R.No. 21/35 dated 1-11-35. As a sequel to this letter the Deputy Registrar was pleased to send for the Secretary of the Bank on the 19th November 1935 to discuss the subject with him in person. The Secretary advanced several convincing arguments justifying revision of the audit certificate, with the result that the Deputy -- Registrar agreed to revise the same, provided the Bank worked out figures to show what exactly was the amount required for declaration of dividend at 5%, and what amount should be available for allotment to the bad debt reserve. In accordance with his suggestions figures were furnished to him with the assistance of the Inspector to whom he issued similar instructions on that day. (Vide enclosure No. 1). It was believed that the matter would be finally settled to the satisfaction of both the parties. The Deputy Registrar in spite of his personal discussion on the subject was not -

inclined to view the matter in the light of his suggestions given to the secretary. but he went to the extent of suggestin a further violation of the bye-law in his letter B.No.3465/35 dated 14-12-35. If his instructions were carried out, the Secretary/and the Assistant Secretary would have had nothing for them for all the strenuous work they turned out during the year. After providing for the reserve fund and declaring 5% dividend, the amount left over would be Rs.31-7-0, which is negligibly small and distribution as per other clauses of the same by-law would become an inpossibility. The Deputy Registrar made it abundantly clear in this letter that he did not favour the idea of granting any remuneration for the Secretary and the Assistant Secretary. The Board of Directors are constrained to disapprove of his suggestions, because, instead of his suggesting a way to encourage the Bank officers, he deliverately suggested not only a violation of the bye-law, but also intentionally discouraged the grant of any remuneration to them. If his instructions were carried out no person would come forward to work as Secretary and it was afraid that the work of the Bank would come to a standstill. Though the other clauses of the bye-law were permissive in character, the Board felt that action taken in accordance with the Deputy Registrar's views would be unfair, inequitable and against good conscience. The interests of the Bank would not have been materially affected, if he had cared to honour the letter submitted to him in accordance with his own suggestions, and granted a revised certificate.

5. That the Bank having found that the Deputy Registrar was adament, and that he was proceeding to suggest only devious ways of altering the clauses of the bye-law to suit his own conveniences; and that he was vainly endeavouring to substantiate and justify the course of action taken by him in respect of grant of audit certificate submitted a representation to the Registrar in C.R.No. 5/36 dated 15-1-36. (Vide enclosure No.2). The positions of both the parties

pp 11-12 supra

were elucidated in it and alternative suggestions, viz., firstly pointing out that there was no necessity for making any deduction towards the bad debt reserve, and secondly showing an amount of Rs.507/- for deduction from the profits to satisfy the Deputy Registrar, were submitted for consideration by the Registrar.

6. That the Deputy Registrar must have been evidently annoyed on knowing that an appeal had been submitted to the Registrar direct. With a view to arrange for its withdrawal, he came to Hospet again, and interviewing the President of Bank, called for a meeting of the Board of Directors on 21-1-36 and brought up for the consideration of the meeting a few charges against the Secretary. He contrived to get two resolutions No. 306 and 307 passed by the Board which were absolutely void and ultra-vires as there was no sufficient quorum. As an officer he should have taken care to see whether there was quorum to consider his proposals and changes. There were seven members including the Secretary. But as per bye-law No. 21 the Secretary was precluded from taking part in the discussion. The resolutions were passed with six members and hence were invalid. Therefore there was no withdrawal of the appeal and it remains in tact. - Again the Resolution No. 307 (Vide enclosure 3) of 21-1-36 was passed by this meeting on the definite and straight assurance given by the Deputy Registrar that he would grant a revised certificate in case the Directors prepared a list of loans overdue for more than three years and submitted the same to him stating the action taken by them in respect of each loan.

7. That the Board of Directors reposing implicit confidence in the Deputy Regiatrar's promise that he would revise audit certificate, appointed a Sub Committee, in - Resolution No. 379 dated 12-3-36 to examine all loans where repayments were due, and to report about the soundness or otherwise of the assets of the Bank. On 4-4-36 the report

of the Sub Committee was carefully considered by the Directors and it was certified that a sum of Rs.1700/- amounted to doubtful loans. They further resolved in Resolution -- No.414 dated 4-4-36 (Vide enclosure No. 4), that there was no justification for retrenching an amount of Rs.1168/- towards the bad debt reserve, and that a deduction of only 5% should be made in accordance with the bye-law. The bye-law providing for the bad debts came into effect during 1934--35 and hence strict adherence to it became mandatory. The Directors made it explicit that they were not prepared to place the matter for consideration by the General Body when it amounted to violation of the bye-law and usurpation of powers conferred upon the General Body by the Bye-law to which the Department had given a legal basis.

8. That the Deputy Registrar in his F.Dis.No.B 2525/35 dated 9-6-1936 stated that the amount according to the Sub Committee's estimation was Rs.2209/- and that according to the audited balance sheet for 1934--35 there was provision for Rs.1961/-, which would be less than the estimated doubtful loans by Rs.248/-. He was not prepared to take into account the share capital of Rs.500/-. So, he refused to revise the sudit certificate on the pretext that it would not be for the safety of the Bank. Thus the Deputy Registrar compelled the Board of Directors to submit this appeal.

9. That the Board of Directors have absolutely no hesitation to invite the attention of the Registrar to the prevarications of the Deputy Registrar. In his communications to the Bank, he made reference to the interests of the Bank and its safety. It is not known whether it is the Deputy Registrar or the managing body that is responsible for its safety. He forfeited the confidence of the Board of Directors The Deputy Registrar perhaps had been labouring under the misapprehension that the board of management had no consideration for the good working of the Bank, its solvency and its safety. The work of the Bank for the past 20 years affords

positive proof of its sound working condition. The figures furnished (Vide enclosure No. 5) bear ample testimony to the fact that the Directors had the interest of the Bank. In the face of good profit if very low dividend at 2½% only, should be declared the public would soon lose all confidence in the Bank and ultimately it might result in the withdrawal of deposits and share capitals and it would in no way redound to the credit of the society. After all the doubtful loans work up to only 2½% against the outstanding loans amounting to Rs.68020/- after the 20th year of the Bank's working. This percentage is insignificantly small and almost negligible in view of the unprecedented prolonged trade depression and -- draught. The Bank had also suffered loss in not receiving any divident from the Central Bank on the share capital of Rs.3400/- for the last three years. The department is conscious of these facts. Even these doubtful loans in question, since not written off, could be recovered some time later when circumstances improve. The situation was not really such as to cause much alarm to the Deputy Registrar, so as to urge him to retrench huge sums for providing for the bad debt reserve, thus depriving the share-holders of the benefit of receiving the divident at 5% and the Secretary and the Assistant Secretary from receiving their due remuneration for thei onerous duties.

10. That there has already been considerable delay in the matter of the revision of the audit certificate and the next audit is to begin shortly. Any further postponement of consideration of this subject is not only desirable but it would only aggravate the discontent and ill-feelings of the Board of Directors and the General Body.

11. That the Resolution No. 411 of the Board of Directors dated 2-4-36 seemed to have exasperated the Deputy Registrar for asking him to expunge the sentence "The Bank is situated in an out-house of the President", from his letter No.B.P.D.L. 5/36 dated 13-3-36, as the directors felt that it was objectionable. The directors only expressed their righteous indignation

indignation at parlance used by the Deputy Registrar. This must have also been one of the reasons for the Deputy Registrar to take a stiff attitude towards the society.

12. In conclusion, in the best interests of the society as well as in the continuance of the good relations between the ~~the~~ Society and the Deputy Registrar, the Board of Directors humbly request the Registrar to be pleased to exercise powers vested in him by Section 57 of the Madras Co-operative Societies Act VI of 1932 and reverse the order of the Deputy Registrar refusing to revise the audit certificate, on the lines suggested by the bank in its letter No-21/35 dated 21-11-35 (Vide enclosure No. 1), from a perusal of which it would be clear that it was a dispute between the Deputy Registrar and the Board of Directors regarding a paltry sum of Rs.153/- only.

p 10-wlpa

For the Board of Direcotrs
of the
Hospet Co-operative Urban Bank Ltd.,
H o s p e t.
Sd. B.Venkana Bhat,
S e c r e t a r y.

H o s p e t.)
Dated 6.7.36)

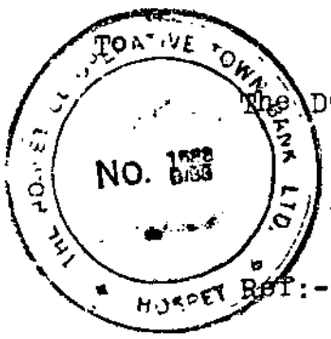
(T R U E C O P Y)

B Venkana Bhat
17/9

S e c r e t a r y.

E N C L O S U R E No. 1.

From:- The Secretary, Co-operative Town Bank, Hospet.



The Deputy Registrar of Co-operative Societies,

B E L L A R Y.

C.R.No. 21/35 dated 21-11-1935

Ref:- Hospet Town Bank - Revision of audit certificate for 1934--35.

Sir,

In accordance with the interview between us on the 19th instant at Hospet camp, I have the honour to bring to your kind notice as follows for favour of consideration and orders.

For disbursing the divident among members at 5% Rs.1259-10-0 is required. For this amount 1201-2-0 is wanting. I have, with the assistance of your Inspector Mr. Sitarama Iyer, as instructed, arrived at this figure.

If you are pleased to declare the net profits as Rs.2135-7-0 it will be convenient to me to distribute 5% divident I have shown below the details of Rs.2135-7-0.

	Rs.	A.	P.
Reserve fund.	533	14	0.
Secretary.	266	15	0.
Assistant Secretary. ...	133	8	0.
Net amount required for declaring) 5% divident excluding Rs.58-8-0 -) available in D.E.F. ... ..)	1201	2	0.
Total	Rs.2135	7	0.

I, therefore, request you to be kind enough to retrench Rs.754/- towards bad debt reserve fund instead of Rs.1168/- and revise the audit certificate as early as possible.

Sd. B.Venkana Bhat,
S e c r e t a r y.

(T R U E C O P Y).

B Venkana Bhat
'/'
S e c r e t a r y.

ENCLOSURE NO. 2.

From:- The Secretary, Co-operative Town Bank Ltd., Hospet.

To The Deputy Registrar of Co-operative Societies,

Madras.

C.R.No. 5/36 dated 15-1-36.

Ref:- Revision of Audit Certificate for 1934-35 of the Hospet Town Bank.

Sir

According to Audit report for 1934--35 the bank ought to get Rs.2889-7-0 as net profit; but the bank has certified Rs.1300/- as bad debts of which Rs.100/- has since been written off (vide Deputy Registrar's No. B.1124/35 dated 2nd October 1935). Rs.1300/- plus overdue interest of Rs.661/- on bad loans amounts to Rs.1961/-. Out of this total of Rs.1961/- a sum of Rs.793/- being the existing bad debt reserve of the bank is deducted. Thus only Rs.1168/- has been shown in the audit certificate by the Deputy Registrar as the total deductions towards bad debts.reserve from the net profits. The share capital on bad loans amounts to Rs.410/- which has not been taken into consideration in arriving at Rs.1168/-. The contention of the Bank is therefore that Rs.793/- plus Rs.410/- or Rs.1203/- covers up Rs.1300/- minus Rs.100/- or Rs.1200/-. Hence it is clear from the facts that there is no necessity to retrench from the net profit any amount towards bad debt reserve.

2. The Deputy Registrar is not willing for the reasons best known to him to take into account the share capital of Rs.410/- and at the same time he is prepared to include the overdue interest on the total bad debts of Rs.1300/- without deducting the existing reserve of Rs.793/- which is to the disadvantage of the bank. Moreover he has reserved Rs.661/- in excess of what is actually required for the purpose which is quite illegal and unjust.

3. Again I have to point out that the overdue interest on the bad debts is only a revenue to the bank and not the asset and as such it ought not to be taken into consideration in fixing the bad debts reserve in as much as it does not affect the assets of the bank.

4. The question therefore now is in the fact of the Bank the certificate and Auditors report to the effect that bad debt is only Rs.1300/- that even according to the contention of the Deputy Registrar that Rs.410/- (The share capital) cannot be taken into account, the reasonable amount to be cut off this year's net profits works out as follows:---

Bad Debt.	Rs.1300/-
Existing bad debt reserve. ...	Rs.793/-.
Therefore the sum required to cover up the bad debt is	Rs.507/-.

5. The facts are placed before you. If the contention of the bank is thought reasonable and correct the whole audit certificate is to be got revised in the light of the figures in the concluding sentence of para one above. Alternatively, if the Registrar is pleased to think that the contention of the Deputy Registrar is correct, then the audit report is to be got revised in the light of the ~~gix~~ figures shown at the fag end of para 4.

6. I therefore request that immediate steps may kindly be taken to instruct the Deputy Registrar for revision of the said audit report as the matter is unduly prolonging since August last.

Sd. B.Venkana Bhat,
Secretary.

(TRUE COPY).

B Venkana Bhat
17/11

Secretary.

13

ENCLOSURE 3.

Resolution No. 307:--

To request the Deputy Registrar to reconsider his reply dated -- 30-9-35 in the matter of the revision of the audit certificate --- after the board of management goes through the list of loans wherein there have been no repayments for over three years etc., and gives a revised certificate about the soundness of the assets as required.

Approved. In view of this resolution the letter by the Secretary to the Registrar dated 15-1-36 C.B.No. 5/36 is withdrawn.

Sd. B.Venkana Bhat,
Secretary.

Sd. T.S.Krishna Rao, President.
Sd. K.Raghunatha Rao.
Sd. H.Govindachar.
Sd. S.S.Bhaskara Rao.
Sd. P.Ramachandra Rao.
Sd. A.K.Prasad.

THE [illegible] CO-OPERATIVE TOWN BANK LTD. NO. [illegible] HOSPET

(T R U E C O P Y).

B Venkana Bhat
17/11

Secretary.

ENCLOSURE N.4.

14.

Resolution No. 414:--

The directors resolve as follows:-

a) though the sub committee of some of the directors for reporting about the soundness of debts overdue for more than three years, have reported that debts amounting to Rs.1700/- are considered to be bad, as per bye-law No. 55 (2d) which came into force in 1934--35 we set apart 5% of the net profits for the bad debt fund. In the previous years where more than 5% was carried to the Bad debt fund the said bye-law had not been framed.

b) The Directors feel that they will not be justified in refusing remuneration to the Secretaries who have turned out strenuous work throughout the year and in reducing the rate of divident to the share-holders below 6%.

They therefore request the Deputy Registrar to revise the audit certificate accordingly.

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Sd. T.S.Krishna Rao, President.4,

Sd. A.Krishna Prasad.

Sd. B.Srinivasa Rao.

Sd. V.L.Narayana Rao.

Sd. H.Govindachar.

Sd. P.Ramachandra Rao.

Sd. U.Raja Re..

(TRUE COPY)

B Venkateshwar
17/4

Secretary.

15

ENCLOSURE 5.

FINANCIAL CONDITION OF THE BANK FOR THE YEAR 1934-35

1) Shares in Central Bank Hospet. } Rs 3,400/-

2) Fixed Deposits in Central Bank. } Rs 8,000/-.

3) Reserve Fund Rs 9,090-8-0.

4) Loans in central Bank Rs. nil.

5) Loans to members Rs 72,008/-.

6) Membership and Share Capital } Rs 24,107/-.

7) Deposits at Bank Rs 61,852/-.

8) Working Capital. Rs 94.779/-

9) . . Profits earned by the Bank during last five years.

1929-1930 - Profits earned. Rs 44-16-11-0.
1930-1931 . . . . . 3043-8-0.
1931-1932 . . . . . 3606-13-0.
1932-1933 . . . . . 3104-2-0.
1933-1934 . . . . . 2989-9-0 —

minus Rs 500/- Yr. branched for Bad debt fund.

Hospet
17/11/36

B Venkam Bhat
Secretary.

THE HOSPET CO-OPERATIVE TOWN BANK LTD. No. 1888 HOSPET

16

Dewde

Cno. 3866 II - From the Board of Directors Hospet Cooperative Town Bank Ltd Hospet No CR.41/36, d 17.11.36

Sub:- Hospet Cooperative Town Bank Ltd., - Audit Certificate - 1934-35 - Regd

Encl No 3866 II/36.1, d.23/11

Referred to the Regr of Cs for remarks.

23/11

Regr of Cs

23/11

Do the Regr of Cs (with letter from the Cf. in case to be sent with reply)

Dcop with Encls
23/11/36

C.F. 30.

CO-OPERATIVE **DEPARTMENT.** 17

ASSISTANT SECRETARY TO GOVERNMENT 16 DEC 1936 DEVELOPMENT DEPARTMENT

Received ..... 19 *Registered* Dev. 4247-II 19
17.12.36

Subject.

Audit - revision of audit certificate - 1934-35 - The Hospet Co-operative Town Bank Ltd. - Bellary district - appeal to Government.

ENCLOSURES.
No. .....
.....
Spare copies .....

No. B. 8327/36.

Station Chepauk, Madras, *Dated the* 12th D e c e m b er 19 36.

From (Name) T. Austin Esquire, I. C. S.
(Designation) Registrar of Co-operative Societies.

To The Secretary to the Government of Madras,
Development Department.
Fort St. George, Madras.

Sir,

Ref:- Government Endorsement No. 3866/II-36-1 dated 23-11-36.

The circumstances that have led to the appeal that has been sent to me for remarks are as follows:-

The audit of the accounts of the Hospet Co-operative Town Bank Ltd., for the year 1934-35 showed a profit of Rs 2889-7-0. Before declaring the net profits, the Deputy Registrar, Bellary set apart a sum of Rs 1,168/- out of this profit, towards the bad debt reserve of the bank, in view of the bad state of certain loans in the bank; and finally issued the audit certificate. declaring the net profit

available for distribution as Rs 1,721-7-0. The Bank, in the first instance, requested the Deputy Registrar to revise this audit certificate, by making a smaller provision for bad debt reserve, so as to have sufficient profits to enable it to pay dividend to the shareholders at 5 percent and decent honoraria to the Secretary and Assistant Secretary. After a long correspondence, the Deputy Registrar refused to revise the audit certificate, considering that the bad debt reserve created by him, from out of the profits of the year, was essential in the interests of the bank. The bank, therefore, appealed to me to revise the audit certificate for the reasons set forth in its letter No. C.R. 25/36 dated 6-7-36 (Enclosure to the present appeal to Government). After obtaining the Deputy Registrar's remarks on this letter and after a perusal of the audit report and the connected records, the bank was told, in my proceedings No. B. 4901/36 dated 30-10-36, that there was no ground to interfere with the action of the Deputy Registrar. With the present appeal to Government the Bank has merely submitted a copy of the appeal that was already disposed of by me and has not adduced any fresh grounds in its appeal petition for a revision of the orders already passed. The arguments of the bank are examined below.

pp 3-9 aute

Copy not

pp 1-2 aute

pp 3-9 "

2. In paragraph 2 of the appeal it is said that the balance out of the net profit as declared by the Deputy Registrar, after carrying one-fourth to the reserve fund, is only Rs 1,291-1-0 and that this would be insufficient to pay dividend at 5 percent to the shareholders; and in paragraph 9, it is said that if dividend is declared only at 2½ percent the members would be dissatisfied and that all the deposits would be withdrawn, which might lead to a crisis. It may, however, be seen from the details furnished in the bank's letter to the Deputy Registrar dated 21-11-35 that the amount required for paying dividend at 5 percent is only Rs 1,201-2-0 and

p 3 aute

Rs 1721-7-0
RF 430
1291-1

p 8 aute

p 10 aute

pp 1-2 ante

para 2, p 2 ante

8. The appeal No. C.R. 41/36 dated 17-11-36 addressed to Government does not contain any new grounds. It is not correct to say, as is alleged therein, that the appeal sent to me at first was sent to the Deputy Registrar for disposal. Of course, I had to call for his remarks and also the connected records, in order to examine the question. This was done fully and it was considered that on the facts of the case no revision of the audit certificate was called for. I do not, therefore, think that there is any case for a revision of the order appealed against.

I have the honour to be,

S i r,

Your most obedient servant.

K. Ramamurthy

For Registrar.

15/12

S.V.B/15-12-36.

THE HOSPET CO-OPERATIVE TOWN BANK LTD. NO. 1569 HOSPET

ASSISTANT SECRETARY TO GOVERNMENT 20 DEC 1936 DEVELOPMENT DEPARTMENT

Dec. 4302 II

Proceedings of the Directorate meeting of the Hospet Cooperative Town Bank Ltd Hospet.

Subject.

1935-1936 సం॥ వా॥ వచ్చు audit సర్టిఫికేట్ కొఱకు చందకి - సభ్యుల దగ్గిర వ్యా॥ వసూలు Rs 1700/- doubtful loans అనుకు సర్టిఫికేట్ కొఱకు వుంచ్చుకొని అందులో 1934-1935 సం॥ర దగ్గిర మ॥ంం॥ తీసుకొని చేర్చిన doubtful loans రూ॥లకు- చొప్పున వచ్చిన వడ్డి తీసి వేసి తక్కిన రూ॥. సం॥ర దగ్గిర కొంతలు అనుకొని అందులో Rs 800/- కు Bad-debt. fund రిజర్వు చేసి తక్కిన సర్టిఫికేట్ కొఱకు వుంచుకొని చేసిన విధానం అయోచితమని వ్రాసి వున్నది.

Res no. 272 A.

The Directorate views with great displeasure the highly arbitrary action of the Deputy Registrar in making a deduction of Rs 800/- in the audit certificate 35-36 towards Bad-debt. Reserve in utter disregard of its opinion and in violation of the bye-laws 55(2) (top of p8 of (A)

Copy to the Secretary to the Government of Madras Development department. Fort St George Madras.

Copy to the Registrar of Cooperative Societies. Madras.

Res. no. 272 B.

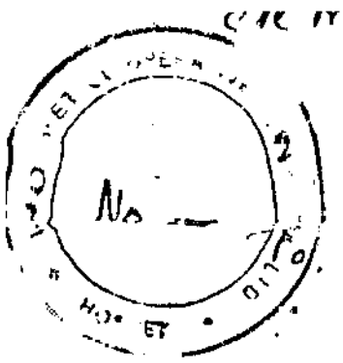
appeal to the Secretary to the Govt of Madras ~~and~~ Development department Fort St George Madras on the matter

Sir P. Ramachandra Row Bt
Sir K. Raghunatha Row
Sir V.L. Narayana Row Bt
appointed as members of Sub Committee to draft the appeal.

(Sd) B. Srinivasa Row
chairman.

(True Copy)

B. Venkambhat
Secretary
18/12/36



C/R No. 18/12/36.

29

Co-operative Town Bank Ltd
Hospet 18.12.36.

The Secretary to the Government of
Madras
Development department
Fort St George
Madras.

Honoured Sir,

I have herewith submitted the Copy of the Resolution Nos. 272 A and 272 B dated 17.12.36 of the Directorate of this Bank as resolved.

Yours faithfully
B Venkoba Rao
Secretary.

24

Dec Reg

Encl 18

29/1/37

29/1/37

pp 17-21 cf

C.M. No. 3866 II/36-2, d. 18/1

Refer. Letter from the Regr. of Cs., No. B. 8927 d. 12.12.36, Hospet Cooperative Town Bank Ltd - Bellary district - Audit Certificate for 1934-35 - Returned.

---

pp below 18/1

The Regr. of Cs. is requested to forward an uptodate copy of the Bylaws of the Hospet Cooperative Town Bank Ltd

2) The Registrar requested to state whether and, if so, what honorarium was paid to the Secretary and the Asst. Secy of the Bank in previous years & why a reasonable honorarium should not be paid to them for the year 1934-35 if the Bylaws allow it and if the persons concerned have deserved it

3) In paragraph 5 of his letter read above, the

pp 19-20 cf

Registrar has stated that the bad and doubtful ~~debts~~ loans as estimated by the Sub-Committee of the Board of Directors of the Bank are considerably less than what they really are and has given certain figures in support of his statement. These, figures, however, relate to the year 1935-36. The Regr is requested to report what the bad and doubtful debts were on 30.6.35.

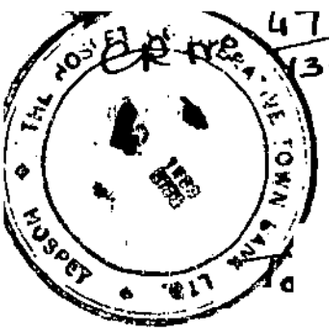
B at p 20 C/F

Do the Regr to ops.

Ans
15.1.37

Ans
15.1.37

Ans
17.1.37

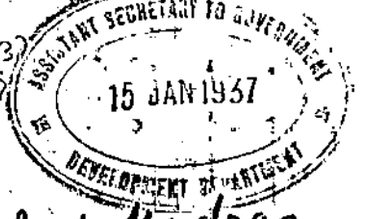


47
13.1.37.

2/0

Co-operative Town Bank Ltd
Hospet 13.1.1937.

Dev. 204-II/37
15.1.37



The Secretary
To the Government of Madras
Development Department
Fort St George
Madras.

Honored Sir

Subj: Deduction of a lump sum of Rs 800/- towards Bad-debt Reserve. Audit Certificate for 35-36. Hospet Coop Town Bank
D/D22-23 audit Ref: This office no 49/36 dt 18.12.36

I have herewith sent the ~~Resolution~~
1 with Copy of the Resolution no 298 dated 9.1.37. of the Directorate of this Bank together with
2 with a Copy of Resolution no 301 dt 9.1.37. as resolved in the above resolution.

yours faithfully

B. Venkata Bhat
Secretary

Proceedings of the Directors held on 8.1.37.
Hospet Cooperative Town Bank Ltd.

Subject.

Consideration of the draft appeal on the audit certificate for 1935-36, submitted by the sub-Committee appointed under Resolution 272 B dated 17-12-36.

Resolution 298
296 W/pp

In view of resolution No 301 Dt 9-1-37 the appeal is kept in abeyance.

Copy to the Government along with the Copy of Resolution No 301. — p 28 W/pp

(Sd) B. Srinivasa Row
Chairman.

(True Copy.)

B. Venkoba Bhat
Secretary. 13/1/37.

THE HOSPET TOWN BANK LTD. HOSPET NO. 1873

Proceedings of the Directorate held on 9.1.37
Hospet Cooperative Town Bank Ltd.

Subject

Resolution 301

In an interview on 8.1.37, I had with the Deputy Registrar, regarding the distribution of dividend for 1934-35 and 1935-1936, the latter suggested as follows:-

To end the controversy, the profit earned in the above two years, after all deductions as per bye-laws 55 (1) & (2), may be paid at 9% as dividend for both years, and if the amount found short for this, is made known to me, together with the resolution of the Directorate, I shall so revise the audit certificate for 35-36 as to allow of 5 1/2 % dividend by reserving 3 1/2% for 34-35 as per audit certificate for that year. The said proposal is brought before the meeting.

As per Deputy Registrars suggestion, Rs 1334/- is required, after all deductions as per bye-laws 55 (1) & (2), to pay 5 1/2% dividend. So the Dy. Registrar should be requested to ~~reserve~~ reserve only Rs 300/- towards Bad-Debt-Reserve so as to allow a profit of Rs 2168-8 as against Rs ~~1668-8-0~~ 1668-8-0 in the audit certificate for 1935-36.

Details for Rs — 2168-8-0

R. F.	Rs 542-2-0	
Honorarium to Secretary	271-1-0	
— do — Asst. Secy.	135-8-6	
Excluding available amt under D. Co. F. amount required to distribute dividend at 5 1/2 %.	1197-0-0	
	2145-11-6	

In Consideration of what transpired between the Deputy Registrar and the Secretary The Board of Directors request the Deputy Registrar to revise the audit Certificate for 35-36 so as to allow for declaration of a dividend of Rs 5 1/2 % so as to make 9 % for the years 34-35 and 35-36 by making the deduction of Rs 300/- towards Bad-debt-Reserve for the year 35-36 as promissed by him on 8-1-37.

The Secretary is requested to furnish the Complete figures in respect of the same as required by the Deputy Registrar.

(Sd) B. Srinivasa Rao
Chairman.

(True Copy.)

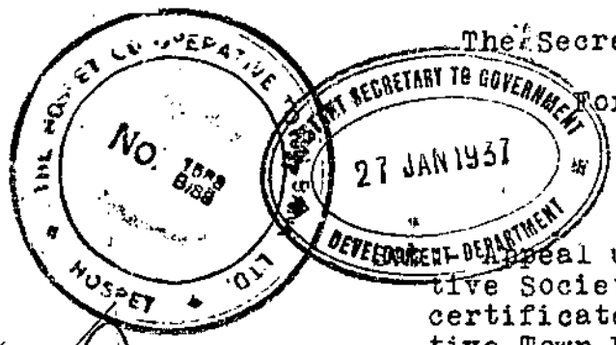
B. Venkatarao Bhat
Secretary
13/1/37

CR no. 6737
23.1.37.

29

Dev. 1368 II
27.1.37

To.



The Secretary, Development Department,
Fort Saint George,
MADRAS.

Appeal under Section 57 of the Madras Co-operative Societies Act VI of 1932 for revision of Audit certificate for 1935--1936 of the Hospet Co-operative Town Bank, Hospet.

Honoured Sir,

The appeal petition of the Board of Directors of the Hospet Co-operative Town Bank Ltd., Hospet consisting of ---

1. M.R.Ry. T.S.Krishna Rao, B.A., 1st grade Pleader (President),
2. " B.Srinivasa Rao, Land-lord, Director,
3. " S.Bhima Rao, Millowner, Do.
4. " V.L.Narayana Rao, B.A., L.T., Do.
5. " Dr. A.K.Prasad L.M.P., Do.
6. " B.Venkana Bhat, Inamdar, Secretary
7. " H.Govindachar, Land-lord, Assistant Secretary
8. " G.Narayana Bhat, Land-lord, Director.
9. " M.Nagappa, land-lord, Do.
10. " G.Kyadigeppa, Sowcar, Do.
11. " K.Raghunatha Rao, Superintendent of Elementa Schools, Director,
12. " U.Raja Rao, Clerk, Co-operative Central Bank Ltd., Hospet, Director,
& 13 " P.Ramachandra Rao, Jahagirdar, Director,

most humbly and respectfully showeth:--

2. That the Deputy Registrar should have declared Rs.2648-8-0 as profits as audited by the Inspector for the year 1935--1936. But the Deputy Registrar has been pleased to make a deduction of Rs.800/- again towards the bad debt reserve and to declare a sum of Rs.1668-8-0 as net profits for distribution.

2468-8-0
800-0-0
1668-8-0

3. This year again the Deputy Registrar who is never tired of repeating his observations that the bye-laws shoul

380

be strictly adhered to by the Bank, has been prepared to outrageously flout the bye-law regarding the provision for bad debt reserve, obviously encouraged by the previous decision of the Registrar in respect of the appeal submitte by the Board of Directors for revision of audit certificate for 1934--1935. Another appeal ~~now~~ has been still pending disposal with the Government. In the opinion of the directors the deduction of Rs.800/- from the profits for bad debt reserve is highly arbitrary and offending against ordinary canons of justice, equity and good conscience, apart from the illegal nature of the action. The directors are at a loss to understand ~~to understend~~ as to why the bye-law regarding bad debt reserve should any longe find a place in the book when the Deputy Registrar can exercise his powers in contravention to the same, and declare profits in accordance with his own whim and fancy. The directorate has not been given even an opportunity to understand the principle on which deductions of lump sums are based. The repeated requests of the directors have fallen flat on the Deputy Registrar's ears and not carried conviction to the Registrar who was expected to examine the question dispassionately on its merits without forwarding the appeal for disposal to the Deputy Registrar.

4. The directors had submitted the certificate of doubtful debts amounting to Rs.1700/- to the Deputy Registrar strictly in accordance with his own instructions during the years 1934--1935 and 1935--1936. The Deputy Registrar on the strength of this figure has made a deduction of -- Rs.1168/- in 1934--1935, and a further sum of Rs.800/- this year 1935--1936. It goes to show that he is at liberty to fix any sum he desired to provide for bad debt reserve -- without adhering to any rule or principle.

5. If the net profits as declared by the Deputy Registrar should be distributed as per bye-law No. 55, the dividend for the share-holders would work up to about 2½ per

ent. ~~We leave it~~ It is left to the Government to judge whether it is a fair figure to be rejoiced at when the share holders had received in the previous years dividends to the extent of 9 per cent also. The directorate invoke the Government to realise that when the matters are taken to the notice of the General Body, many an unpleasant situation may arise which the directorate wants to avoid by appealing to the Government to take an equitable view of the whole affair in the light of the views of the directorate expressed herein and in the previous appeal.

6. The directorate are painfully forced to place before the Government for its just consideration certain facts in respect of the attitude of the Deputy Registrar towards the Bank. The directorate have absolutely no -- hesitation in believing that the attitude of the Deputy Registrar towards the Bank is what it should not be. The Deputy Registrar does not require to be told that the -- directorate consists of respectable gentlemen discharging their duties in the best interests of the bank who are not prepared to brook the insults and rebuffs hurled at them. They deserve to be treated courteously. If the directorate only wanted to retaliate they could have done so, but keeping the interests of the bank in mind they deliberately desisted from taking the action which they should have -- taken under such provocative circumstances. The directorate did not come into conflict with any Deputy Registrar in the previous years and why such a thing should happen -- within these two years only is self evident from the facts already submitted. In the opinion of the directorate the Deputy Registrar has only been placing impediments in the way of sound and satisfactory working of the Bank. Certainly this does not redowned to the credit of the Deputy Registrar. If he is displeased with the directorate , he can so represent to the Government, and take over the management. He is deliberately apathetic towards the bank and the

directorate understand him in that way when they see how far his correspondence harmonises with his views expressed in person here. He says one thing and writes another and makes the directorate feel the prick. The directorate cannot afford to tolerate these pin-pricks. It is for the Government to realise this and see to the easing of the serious tension existing between the Deputy Registrar and the directorate.

7. That the Deputy Registrar has developed a personal prejudice against the bank is borne out by one or two of the following facts:--

(i). The General Body resolved in Resolution No. 9 of 21-2-1931 to grant one month's salary as bonus to staff as per bye-law No. 55 (2-c) and the same was approved by the Deputy Registrar in his Dis. No. 430 dated 12-2-36 . . In accordance with this bye-law the General Body was allowing bonus till 1934--1935. During 1934--1935, the Deputy Registrar disallowed bonus on the flimsy ground that the disposal was not forthcoming in his office. He suggested further that another resolution should be submitted in respect of bonus to staff. On 27-9-36 the resolution was passed and the same was submitted along with a few other papers. No notice of the same was taken by him for a long time and when reminded he denied the receipt of the concerned papers. The directorate place this instance before the Government to draw their own inference regarding the attitude of the Deputy Registrar.

(ii). In all arbitration references in the past years the Deputy Registrar was satisfied if the clerk of the Bank appeared and produced the necessary records for inspection and verification and awards were passed. Of late he has been insisting upon the Secretary to be present in person with the records as he thinks, the depositions of the clerk would be illegal. It is therefore conceived that the power of interpretation of rules and descretion vested in the Deputy Registrar is freely utilised to serve his own

whims and fancies, irrespective of the damaging results on any public institution, or individual. If there are any changes in the rules, such changes have not so far been -- communicated to the Bank. As the Deputy Registrar now thinks that the depositions by the clerk of the bank in past years were all illegal, the mistake has crept in by the deliberate ~~declaration~~ dereliction of the duty on the part of the Deputy -- Registrar and all the awards from top to toe should now be held illegal. If the bye-law declaring on this point is mandatory the responsibility for the failure to enforce it in the past falls rightly on the shoulder of the Deputy -- Registrar. The directorate could not easily ignore all this, though the Deputy Registrar might plead that after all it was not of such a serious nature as to engage the attention of the directorate. The directorate now request the Government to elucidate this point once and for all for the benefit of the bank and the Deputy Registrar and clear the position.

Bylaw 23(C) & foot n/p 4 of (A)

In this way instances can be multiplied to show how far the Deputy Registrar has been unsympathetic towards the directorate.

8. The amount of doubtful debts is about Rs.1700/-.

The amount already available is ...	Rs.793-0-0.
the amount recommended to be reserved in 1934--1935 as per letter No. 21/35 dated 21-11-35 of the bank. ...	Rs.754-0-0.
Total	Rs.1547-0-0.
Balance to be reserved in 1935--1936..	Rs. 153-0-0.
Grand Total	Rs.1700-0-0.

p.10 auto

A deduction of a sum of Rs.153/- in 1935--1936 should have been quite enough to make up the amount of Rs.1700/-. There is absolutely no justification for deduction of a sum of -- Rs.800/-. The directorate cannot but condemn the action of the Deputy Registrar as unfair and highly arbitrary.

In a bank with the following resources

Share Capital	...	...	Rs.23708-10-0.
Reserve Fund.	...	...	Rs. 9938-0- 0.
Loans outstanding against members.			67929-15-0.
Working Capital.	...	...	Rs.96768-4-0.

an amount of Rs.1700/- as doubtful debts after its 21st year of existance is not such an alarming figure as to disturb the equanimity of the Deputy Registrar and to make deductions of huge sums towards the Bad debt Reserve depriving the subscribers of even 5 per cent dividend, which the Registrar fixed as the reasonable percentage. This sum of Rs.1700/- could be realised should conditions of the people change for the better. The Deputy Registrar could have taken a sympathetic view of the position of the share-holders and enabled them to expect at-least 5 per cent on their share deposit amount. The Government as well as the department have fully realised that slackness of collection has been primarily due to unprecedented depression and low prices. It is not fair to blame the managing body in this direction when similar situations are faced by all alike.

10. This attitude of the Deputy Registrar has resulted in a loss to the bank to an extent of Rs.1000/-, from the time the department took over the management of the Central Bank (viz., Rs.400/- profits on shares in the Co-operative Central Bank and Rs.600/- in readjustment of dividends -- towards the loans). The directorate have reasons to believe that the Deputy Registrar has been over-riding in his decisions which are detrimental to the bank even since the appea of this bank was forwarded to him for disposal. That the bank had the temerity to approach the higher authorities to get a reversal of his orders, was all that the Deputy Registrar could find fault with ~~me~~, and the situation brought about by this incident has resulted in the unsatisfactory state of affairs which is not advantages to the bank, to the share-holders and the department all alike. It is high

time that the Government interferes and settles the matters fairly, having the interest of the share-holders and the successful working of the bank in view.

11. In the best interests of the bank, the Board of Directors humbly request the Government to be pleased to exercise powers vested in them by Section 57 of the Co-operative Societies Act to revise the audit certificate for the year 1935--1936 in accordance with bye-law No. 55(2)-D, as requested in para 8 supra

For the Directorate,
Co-operative Town Bank, Hospet,

B Venkata Bhat
23/1/37.
Secretary.

Hospet.
Dated 23rd January 1937

36

Dev Dept

Cno 368 II - From the Secy, Hosper Cooperative Town Bank Ltd, CR. No 6 of 37, d 23-1-37

pp 29-35 CF

14

Cont No 3866 II/36, d 1237

Referred to the Regr. for remarks in continuation of Govt memo No 3866 II/37 d 18-1-37

pp 24-25 CF

25.1.37

28/37

To the Regr of Co. Units pass at pp 29-35 CF in regd to be read

Dy Secretary

1/2

Discussed with Govt

2.2.37

2

37/30

Dev. 510-11

4.2.37

C. INDIAN POSTS AND TELEGRAPHS DEPARTMENT

0583

NOTICE

This form must accompany any inquiry made respecting this Telegram.

Charges to pay.

Rs.	As.

4 FEB 37 P.T.O.

Handed in at (Office of Origin).	Date.	Hour.	Minute.	Service Instructions.	Words.
Hospet	4	12			15

TO

Recd. here at 13 H. M.

Development
Secretariat Madras

Deputy registrars treatment
resented directorate Cooperative
town bank hospet resigned
as protest yesterday = Secretary =

N. B.—The name of the Sender, if telegraphed, is written after the text.

Karim Bux Bros., Printers, Calcutta—73 (B-8)—19-4-33—2,00,000 Bks.

Decree

PTO

31 30

Receipt

Ctro 5.10.II Telegram from the Secy. Hospet Cooperative Town Bank Ltd., dated 4.2.37

Encl Nro 3866 II/26.4, d 5237

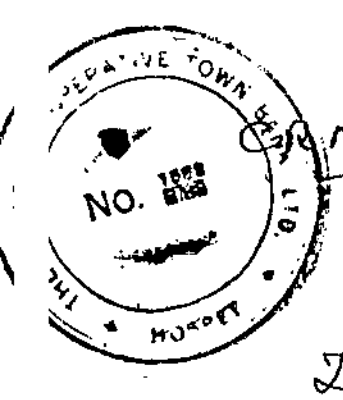
Communicated to the Regr of Cs

Dy Secretary 5/2

Regr of Cs 4237

Do ni Regr of Cs (with Copy of telegram at p. 30 c.f.)

5/2/37

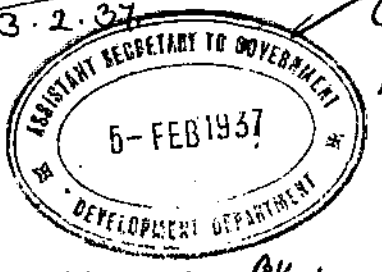


No. 9/37
3.2.37

39

Dw. 523 II
5.2.37

Cooperative Town Bank Ltd
Hospet 3.2.37



To.

The ~~Secretary~~ Secretary
The Government of Madras
Development Department
Fort St George
Madras

Honoured Sir,

I have herewith submitted the
40 mpa Copy of the resolution No. XI Dt 1.2.37. of the
41 mpa general body and a letter of resignation
of the Directorate of This Bank.

Yours faithfully
Venkata Bhat
Secretary.

40 33

THE HOSPET CO-OPERATIVE TOWN BANK LTd., HOSPET.

Proceedings of the second General Body Meeting for 1936--1937 held on the 1st day of February 1937.

Consideration of appeal sent to the Government in C.R. 41/36 dated 17-11-1936 pending disposal with the Government regarding the revision of Audit certificate for 1934--1935 and concerned papers thereon.

RESOLUTION XI.

As the appeal preferred by the Directorate to the Registrar to revis the audit certificate issued by the Deputy Registrar for the year 1934--1935 was rejected,

as no action till now has been taken on the appeal preferred to the Government so long ago as 17-11-1936 against the Registrar's order declining to interfere in the matter and

as it is felt that all further agitation would prove futile

This meeting of the General Body resolves with much regret to fully - support the Directorate in their reso to tender resignation in a body to - their offices to vindicate their hono and the fair name of the Bank while highly appreciating their invaluable services to the Bank.

This meeting of the General Body also emphatically protests against the arbitrary and discourteous attitude taken by the Deputy Registrar towards the Directorate.

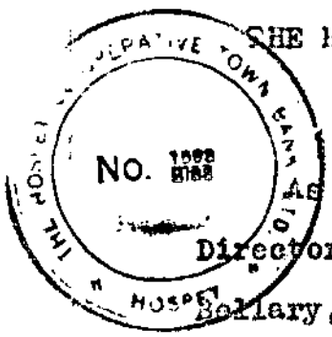
Sd. T.S.Krishna Rao,
President.

(T R U E C O P Y)

B Venkata Rao
3/2/37
Secretary.

41 24

THE HOSPET CO-OPERATIVE TOWN BANK LTD, HOSPET.



As a protest against the treatment meted out to the Directorate by the Deputy Registrar, Co-operative Societies, Bellary, we the undersigned Directors of the Co-operative Town Bank, Hospet, do hereby tender resignation to our ~~eff~~ offices in a body.

Sd. T.S.Krishna Rao, President.
Sd. B.Venkana Bhat, Secretary.
Sd. H.Govindachar, Assistant Secretary.
Sd. B.Srinivasa Rao, Director.
Sd. V.L.Narayana Rao, "
Sd. S.Bhima Rao, "
Sd. K.Raghunatha Rao, "
Sd. G.Narayana Bhat, "
Sd. U.Raja Rao, "
Sd. P.Ramachandra Rao, "
Sd. Dr. A.K.Prasad, "
Sd. M.Nagappa, "
Sd.G.Kyadigeppa, ".

Hospet.
Dated 3·2·37

(TRUE COPY).

B Venkana Bhat
3·2·37
Secretary.

42
35

Deoth

Ord

26/9

p 32 ef

C No. 523 II - From the Secy
Hospet Cooperative Town Bank
No, CR No. 9/37, dated
3-2-37.

Encl No. 3866 II/36-5, d 8/23
Communicated to the
Regr of Cs

REA
6237 Lon. 7.287

Ack
Nil

Opt & return he
8/3
to the Regr of Cs (with
copy of pp 32-34 ef)

Despatched
9/2/37

ASSISTANT SECRETARY TO GOVERNMENT
17 FEB 1937
DEVELOPMENT DEPARTMENT

Dy. 213-G
17.2.37

36

43

To

The Secretary to the Government,

Development Department

Madras.

Honoured Sir,

We, the share-holders of the Co-operative Town Bank Ltd., Hospet beg to submit the following for favour of consideration and speedy disposal."

2. A meeting of the General Body was held on 1-2-1937 to consider the Audit Certificate for the years 1934--1935 and 1935--1936 and the correspondence relating thereto between the Deputy Registrar and the Directorate. On a careful and profound deliberation, the General Body felt that the Deputy Registrar had been driving the matters to an extremity so as to incense the Directorate to such an extent as to force them to take a decision to resign their posts as a protest against his action. The General Body were convinced that the Directorate had been making all efforts constitutionally to get the Audit certificates revised with a view to give the share-holders a dividend of 5 per cent as per Registrar's Circular. The General Body having felt that the Deputy Registrar had been unduly severe in exercise of his powers and had reduced the -- Directorate to a mere toy in his hands, could not but lend strong support to the decision taken by them. The result was their resignation. It is a pity that the Deputy Registrar who is expected to ~~encourage~~ Co-operate with the directorate in working the Bank very successfully should have taken to measures which brought the business to a stand still.

41

Rec p. 24 ante

3. 'The Deputy Registrar's last letter to the Directorate accelerated the crisis. The Directorate had decided to prefer an appeal to the Government ~~and~~ in respect of the Audit Certificate for 1935--1936. The Deputy Registrar having scented this, spoke to the Secretary in person in

Copy not enclosed

Hospet on 8-1-1937 and requested him to place before the Directorate his suggestions and then submit figures to work up to 9 per cent dividend for both the years put together. Reposing confidence in his assurances, the Directorate kept the appeal in abeyance and submitted a resolution as instructed by the Deputy Registrar. The result was his last letter which cast insinuations on the Secretary who according to him was presumed to have mis-represented his view point to the Directorate. It is this letter that precipitated this crisis. The appeal was submitted on 23-1-1937.

4. Notice of the General Body meeting was given to the Deputy Registrar with a request that he might make it convenient to attend the meeting. The Deputy Registrar who was here on the evening on the 31st January 1937 could not afford to wait for a day more on 1-2-1937 to attend the meeting. It is for the Government to draw their own inference regarding his attitude towards the General Body.

5. On the 6th instant the Deputy Registrar resorting to Section 38 of the Act proclaimed in the town by beat of tom tom at about 5 or 6 P.M., that he (the Deputy Registrar) would hold an enquiry and the members could appear and depose to facts within their knowledge. It is not known how far the Deputy Registrar has been justified in resorting to Section 38 of the Act. There are no circumstances justifying such a course of action on his part as it is primarily a dispute between himself and the Directorate. The Section is quite clear, and his taking action under it was obviously irregular under the present circumstances.

6. The Bank has been working very successfully for the past several years and we had opportunities of receiving devidends at 9 per cent also. The present Directorate is the best that had ever been constituted and as such it is a matter of surprise to us that the Deputy Registrar should have come into direct conflict with their views. The ---

share-holders are entitled to receive the 5 per cent dividend and the Deputy Registrar is not justified in curtailing it to a rediculously small figure. No doubt it would be sound business to provide adequate reserves out of the profits against prospective losses and unforeseen contingencies. The Directorate acting on the instructions of the Deputy Registrar have in their recommendatory resolution apportioned the profits between reserve and dividend with due regard to the requirements of the Bank and they are the best qualified to make the apportionment by reason of their knowledge of the condition of the Bank. The share-holders fail to understand as to why the Deputy Registrar should maintain an antogonistic attitude towards the Directorate and the General Body though the Directorate have on more than one occasion seen their way to come to compromise with the Deputy Registrar.

8. We therefore request that the Government would be so good as to take all facts submitted by the Directorate in the two appeals into immediate and favourable consideration and (1) ease the tension by revising the Audit certificates so as to allow for 9 per cent for two years put together and (2) urge the withdrawal of the resignation by the Directorate or conduct a meeting of the General Body at an early date for election of office bearers.

For which act of kindness, we ever remain grateful.

N.B
Copy to the Registrar
Cooperative Societies
Madras.

Hospet.
Dated. 13.2.37

1 A. Neelakanta Shastry. 12/2/37.
2 S. Bhaskara Rao
3 Pethanachari
4 G. Paramanandaiah
5 Ramachandra Rao
6 M. Kariyappa
7 I. Yadunaiya B.A.B.L. Pleader Hospet
8. Srinivasa Padmanabhi
9. Sheik. Hussain

46

10. Y.D. Timmma Rao
4 [illegible]
12 [illegible]
13 [illegible]
14 [illegible]
15 Kurnool Lakshmanrao
16 [illegible]
17 [illegible]
18 [illegible]
19 [illegible]
20 V. Govindarao.
21 [illegible]
22 [illegible]
23 [illegible]
24 [illegible]
25 D. Lakshmana Rao
26 M. Kamappam.
27 [illegible]
27A. [illegible]
28 [illegible]
29 K. D. [illegible]
30 T. Ramachandra [illegible]
31 R. Ananthachar
32 A. Lakshmi Rao
33 B. Dasamma.
34 M. Hanumantha Rao
35 [illegible]
36 [illegible]
37 Shankarathat 12.2.37
38 [illegible]
39 [illegible]

~~46~~ 47

41 [illegible]

42 [illegible]

43 [illegible]

44 [illegible]

45 [illegible]

46 G. Ramesh

47 D. Veerapakshappa

48 [illegible]

49 [illegible]

50 K. [illegible]

[illegible]

51

Dev. 806 II
25.2.37 48

To

The Registrar of Co-operative Societies,

M A D R A S.

Sir,

With reference to your notice No. F.981/37 dated 10-2-1937, we the Directors of the Town Bank, Hospet beg to submit our considered reply as under:--

2. We desire to make it abundantly clear to you that our resignation was intended as a protest against the treatment meted out to the directorate by the Deputy Registrar. The resignation has absolutely no connection with the pending appeals.

3. The Deputy Registrar had been maintaining quite an unwelcome attitude for the past two years and his treatment had, on more than one occasion, been resented by the directorate. But with much patience they tolerated the insinuations and insults in the interests of the Bank. But when he made the situation almost intolerable the directorate had no other alternative but to take this drastic step. We have absolutely no hesitation to submit that the Deputy Registrar has been primarily responsible for the creation of this abnormal situation.

4. The Deputy Registrar is a party to the dispute. Our grievance has been against him. So, action under section 38 is ultravires of the Deputy Registrar. There was no need for any enquiry and no member had any deposition to make regarding the present situation. If the Deputy Registrar had been pleased to call for a meeting of either the directors or the General Body there could have been a response.

5. In conclusion we beg to submit that (1) our resignation and (2) the refusal of the members to participate in the enquiry cannot be grounds for supercession. However if the Deputy Registrar is pleased to revise the audit certificates allowing 9 per cent dividend for the

years 1934--1935 and 1935--1936 put together as per his own instructions, we have no objection to withdraw our resignations.

We beg to remain
Sir,

1(30) B. Srinivasa Row.
2(30) U. L. Narayana Row
3(30) G. Narayana Bhat.
4(30) Dr. A. K. Prasad.
5(30) M. Nagappa.
6(31) G. Kyadigeppa
7(30) K. Raghunatha Row
8)(37) P. Ramachandra Rao
9(30) S. Bheema Rao

Hospet.)
)
Dated 17-2-37.)

(T R U E C O P Y).

The other Directors are not in Town and are engaged in election work

Copy to the Government for information.

True Copy

B. Venkana Bhat

Ex Secretary

22/2/37.

570 Dev. 180 V
15.3.37

To

The Secretary to the Government, of Madras
Development Department,
Fort Saint George,
MADRAS.

Sub:- Supersession of the Co-operative Town Bank. Hospet

Ref:- 1. No. F 981/37 dated 10-2-37 of the Registrar.
2. Directors' reply dated 17-2-1937.
3. No. F 981/37 dated 26-2-37.

Sir,

We the ex-directors of the Hospet Co-operative Town Bank Ltd., represent the following for the consideration of the Government:--

Enclosures
4
pp 62-63 infra

2. The Joint Registrar of the Co-operative Societies Madras has been pleased to supersede the said bank and appoint a Junior Inspector to manage its affairs for a period of three months from 1-3-37.

3. The Joint Registrar bases his order of supersession upon two grounds (1) that the Directors resigned and created a dead look and (2) that the directors demanded a dividend of 9 per cent per year.

4. The Directors have expressed in unmistakable and unambiguous language that their resignation was intended as a protest against the treatment meted out to the Directorate by the Deputy Registrar of Bellary. This aspect of the question has been ignored by the Joint Registrar and he is found to harp once again on the fact that the resignation was on the ground that further agitation was futile. (Vide para 2 of the reply dated 17-2-1937). It is not known why the Joint Registrar should go to the extent of mutilating the version of the Directors when it has been crystal clear to him that the resignation was not tendered in the spirit in which he understood it to be. We are now

p48 cult c

P.T.O.

forced to come to the inevitable conclusion that the Joint Registrar ~~efficently~~ evidently desired the Directors to submit uncomplainingly to the Deputy Registrar and tolerate all humiliation and insults which the Deputy Registrar could liberally hurl at them. There is then no gain-saying the fact that the Joint Registrar and the Deputy Registrar have evidently colluded to flout the opinion of the Directors and the General Body. It can easily be inferred from the nature of the correspondence that attempts have been made to brush aside contemptuously the unanimous opinion of the Directors and the General Body. It is needless to state with all the emphasis we can command that the Joint Registrar and the Deputy Registrar have forfeited the sympathy and co-operation of the shareholders of the Bank in general.

para, p62 my...

5. It is stated by the Joint Registrar that the Deputy Registrar made attempts to restore a proper constitution which were of no avail. We are at a loss to know what the procedure should be when constitution is sought to be restored. In our opinion, a notice calling for a meeting of the shareholders would have produced the desired effect. Action under Section ø 38 by the Deputy Registrar was quite irregular and uncalled for. The shareholders resented such an action and they were perfectly justified for it. There was nothing bad with the financial condition of the Bank as to enable him (the Deputy Registrar) to take action under Section 38. It was on the other hand working very successfully. No shareholder had any grievance against the directors and no necessity was felt to appear before the Deputy Registrar to make deposition. If the Deputy Registrar had meant to restore constitution and if that had been really his spirit or intention the procedure could have been different. His threats of supersession and the subsequent development make it abundantly clear that the Deputy Registrar wanted to create necessary --

52

grounds for the Joint Registrar for superseding the Bank. No other inference can be drawn out of the present situation but this, that the Deputy Registrar had to achieve his object and that had been accomplished.

6. Regarding the second ground that the Directors demanded a high rate of dividend, it has to be said without any fear of contradiction that the Joint Registrar has either not cared to go through the letter of the directors dated 17-2-1937 or that if he has read through, he has misconstrued it. It is absolutely impossible to ~~ignore~~ ignore what the directors have said in their reply and put his own construction on it so as to give a distorted version of the request of the Directors. The dividend asked for was 9 per cent for two years put together. A dividend of 4½ per cent per year is not an extravagant demand. The Joint Registrar must have been labouring under a misapprehension in respect of this particular issue. The shareholders are entitled to demand at least 4½ per cent per year as dividend when the Registrar in his circular has advised a rate of 5 per cent. The demand of the share holders is less than the rate fixed by the Registrar himself. It is surprising that the Joint Registrar should give expression to some thing (i.e., 9 per cent) which has no foundation whatever. The attention of the Government is specially invited to para 5 of the Directors' reply dated 17-2-37. To suggest that the demand was for 9 per cent and that the same was pressed persistantly by the directors is certainly intended to impugn the good name and work of the directorate and to screen the indiscreet action of the Deputy Registrar. There has been absolutely no cause for the display of indiscriminate antipathy towards the Directors and the shareholders. The action of the Joint Registrar has only tended to exacerbate the feelings of the members of the bank. It is obviously futile for the Joint

pp 48-49 ante

para 5, pp 48-49 ante

pp 48-49 ante

Registrar to seek in the pronouncements of the Deputy Registrar justification for ~~his action~~ his action.

7. If the Joint Registrar himself had been pleased to institute an enquiry in the matter, the whole situation would have unravelled itself and the Joint Registrar would have been in a position to come to a reasonable and impartial decision. He would have also known first hand that the Deputy Registrar largely contributed towards the aggravation of the strained relation between the Directors and himself.

8. The Joint Registrar has been now very liberal with the shareholders' money. There has been a good deal of hesitation and wrangling to allow a fair and equitable rate of 4½ per cent per year i.e., dividend for 1934--1935 and 1935--1936 making up 9 per cent for the two years put together. There was also an implied suggestion in the correspondence between the Deputy -- Registrar and the Bank that the remuneration to the -- Secretary and Assistant Secretary might not be paid. The Joint Registrar and the Deputy Registrar could go to the extent of depriving the Secretary and the Assistant Secretary of their share of the profits and curtailing the right of the shareholders in having a reasonable rate of dividend without any feeling of compunction. Now the Joint Registrar acting on the recommendation of the Deputy Registrar has offered to be very lavish with the ~~Bank's~~ Share holders money in ordering payment of Rs.75/- per mensem as the salary of the Junior Inspector and pensionary and leave contributions. It is not known what work the Junior inspector is expected to turn out within these three -- months. Work or no work, a sum of Rs.75/- and more should be paid. According to him it is in the interests of the Bank to pay such a heavy sum. If the remuneration to be paid to the Secretary and the Assistant Secretary is worked

out it may not come to Rs.35/- or Rs.40/- per month and there is not an iota of justification for spending Rs.75/- and more. The Joint Registrar has exercised powers of supersession for the mere pleasure of doing it and not in the interests of the Bank.

8. It is a pity that the action of the Deputy Registrar and Joint Registrar has been going on unchecked. The Joint Registrar has been lulling himself into the belief that normal condition could be restored after a period of three months. Far from it, he has alienated the sympathy and co-operation of the share-holders. This is not a healthy development and it is not known how far the action of the Joint Registrar ~~of~~ or the Deputy Registrar would be acceptable to Government if prestige does not stand in the way. Particularly at the present time when conditions are growing in complication, officials must be all the more discreet and take especial care not to arouse public suspicion and resentment without adequate ~~xxx~~ cause. The Joint Registrar and the Deputy Registrar should have substantially helped the directors in their anxious endeavour to advance the interests of the Bank. In the present instance, it is quite the reverse particularly when the object of the Co-operative movement and the aim of the authorities jointly is to encourage the non-official management; this sort of deplorable and unhealthy development ~~ever~~ never should not be encouraged by the Government.

We beg to remain,
Sir,
Your most obedient servants,

Hospet.
Dated 11th March 2937

1. B. J. Srinivasa Rao
Law-Lit, Hospet.
2. B. Venkata Bhat
Ex-Secretary
3. P. Ramachandra Rao

Copy to the Registrar ~~and Joint Registrar~~ of Co-operative Societies, Madras.

P.T.O

55

4 V. Narayanamma

5 A.K. Prasad

6 K. Raghunatharao.

7 S. Bheemarao - Millowner Hospet

8 [illegible]

9 [illegible]

10 [illegible]

5/6 I

/13-2-37.

Office of the Registrar of
Co-operative Societies,
Madras, dated 10th Feb. 1937.

No. F. 981/37.

From:- M.R.Ry. M.Giriappa Avl., B.A.,
Joint Registrar of Co-operative Societies,
M a d r a s.

To

M.R.Ry. B.Srinivasa Rao Avl.,
Director. Hospet Co-operative Town Bank Ltd.,
H O S P E T.

Sir,

Sub:- Supersession - Hospet Co-operative Town Bank Ltd., - Supersession of Committee.

The Hospet Co-operative Town Bank Ltd., filed before Government against the audit orders of the Deputy Registrar, Bellary for the years 1934--1935 and 1935--1936. Government have not yet issued final orders on these appeals. The Directors of the Bank have in the meanwhile tendered resignation of their posts in the directorate on the ground that all further agitation has proved futile. As such a conclusion that all agitation has proved futile is not warranted by actual facts, it is only proper to infer that the directors have resigned without a due regard to the interests of the Bank, in consequence of such resignations, there has been a complete dead-lock in the affairs of the Bank. Attempts to restore a proper constitution for the Bank by the Deputy Registrar, Bellary were of no avail as the members including the Directors have refused to participate in the enquiry under Section 38 of the Co-operative Societies Act sought to be held by the Deputy Registrar on 7-2-1937. An abnormal situation has therefore arisen and it required immediate action.

pp1-2 ante
pp29-35 ank

2. You are hereby requested to show cause within a week from this date why the Committee of the Bank should be superseded under Section 43 of the Madras Co-operative Societies Act VI of 1932 and a Government Inspector placed in charge of the Bank to manage its affairs for a period of 6 months.

(True Copy)
B Venkata Bhat
Ex Secretary
12/3/37

By Order,
(T r u e C o p y).

Sd. M.Giriappa.
10-2-1937. Joint Registrar
Sd. A.Cunniah 10-2-37
M a n a g e r.

To (Same as at pp 48-49 ante) 57 ctt

The Registrar of Co-operative Societies,

M A D R A S.

Sir,

With reference to your notice No. F.981/37 dated 10-2-1937, we the directors of the Town Bank, Hospet beg to submit our considered reply as under:-

56 ante

2. We desire to make it abundantly clear to you that our resignation was intended as a protest against the treatment meted out to the directorate by the Deputy Registrar. The resignation has absolutely no connection with the pending appeals.

3. The Deputy Registrar had been maintaining quite an unwelcome attitude for the past two years and his treatment had, on more than one occasion, been resented by the directorate. But with much patience they tolerated the insinuations and insults in the interests of the Bank. But when he made the situation almost intolerable the directorate had no other alternative but to take this drastic step. We have absolutely no hesitation to submit that the Deputy Registrar has been primarily responsible for the creation of this abnormal situation.

4. The Deputy Registrar is a party to the dispute. Our grievance has been against him. So, action under section 38 is ultravires of the Deputy Registrar. There was no need for any enquiry and no member had any deposition to make regarding the present situation. If the Deputy Registrar had been pleased to call for a meeting of either the directorate or the General Body there could have been a response.

5. In conclusion we beg to submit that (1) our resignation and (2) the refusal of the members to participate in the enquiry cannot be grounds for supercession. However if the Deputy Registrar is pleased to revise the audit

P.T.O.

certificate allowing 9 per cent dividend for the years 1934--1935 and 1935--1936 put together as per his own instructions, we have no objection to withdraw our -- resignations.

We beg to remain
Sir,

Sd. 1. B.Srinivasa Rao.
" 2. V.L.Narayana Rao.
" 3. G.Narayana Bhat.
" 4. Dr. A.K.Prasad.
" 5. M.Nagappa.
" 6. G.Kyadigeppa.
" 7. K.Raghunatha Rao.
" 8. P.Ramachandra Rao.
" 9. S.Bhima Rao.

H o s p e t.)
)
Dated 17-2-1937.)

others are not in twon and engaged in election work.

(T r u e C o p y).

Copy to the Government for information.

True Copy

B Venkata Rao
Ex-Secretary 12/3

59/1 - III

To

The Joint Registrar.

M a d r a s.

Ref:- Your No. F 981/37 dated 10-2-37.

Sub:- Supersession of Hospet Town Bank.

Sir

With reference to the above I have the state as follows:--

1. When the audit certificate for 1934--1935 was received the directorate requested the Deputy Registrar to reduce the amount of Rs.1168/- reserved to bad debt reserve from the profits of the year so as to allow a fair percentage of dividend to the shareholders as against 3½ per cent allowed in the audit certificate. On Deputy Registrar's final refusal after a protracted correspondence, an appeal was preferred to the Registrar which was forwarded to the Deputy Registrar for disposal instead of taking action as vested in him by section 57 of the Act. This gave the Deputy Registrar a fillip, in as much as he found support to his actions irrespective of sound reasons and due courtesy.

2. 2. In the meanwhile the audit certificate for the year 1935--1936 was also received wherein I found again a cut of Rs.800/- from the profits towards bad debt reserve, thus bringing this reserve to a total of about Rs.2761/- as against the certified bad and doubtful debt of Rs.1700/-. Again there was a fight over under and unnecessary reservation towards bad debt reserve. On 8-1-1937 there was a mutual talk at Hospet between the Deputy Registrar and myself wherein a compromise resolve to allow 9 per cent dividend for both the years put together was arrived at, in the presence of Mr. Vizendra Rao, the present Manager of the Co-operative Central Bank, Hospet. By a resolution of the directorate the required figures were furnished the next day or so, as asked by the Deputy Registrar, to enable him to revise the audit certificate for 1935--1936 in the

P.T.O.

light of his talk with me on 8-1-1937. The audit certificate for 1934--1935 already allowed only 3½ per cent dividend, it was thought fit to so amend only the audit certificate for 1935--1936 as to allow a dividend of 5½ per cent so that atleast 9 per cent dividend for both the years put together may become possible, as against the Registrar's circular allowing 5 per cent dividend.

3. Even this arrangement agreed upon by him (the Deputy Registrar) was not kept up but it was flouted by the Deputy Registrar. This was in the opinion of the directorate a clear insult against them and hence they resigned in a body as a protest.

4. It is not too late even now for the Registrar or the Joint Registrar to intervene and examine the whole case to see if the request of the directorate to obtain a fair dividend of 9 per cent for both the years was justified or the stern and apethetic attitude of the Deputy Registrar through out, against the directorate which has been working in a more responsive way to the interests of the bank as whole, without any blur or hitch in the previous years during the time of any of the predecessors of the present Deputy Registrar, was so justified as to have a backing by his superiors.

5. Further I have to state that if the Deputy Registrar has attended the General Body meeting of the said bank on 1-2-1937 and had made an honest attempt to settle the matter, by a vivid exposition and explanation and at the same time trying to meet the views of the -- General Body and the directorate at-least half way in their desire to obtain a fair dividend this so called dead-lock by way of resignation would not have occurred.

6. When the Bank had earned a fair profit during the years 1934--1935 and 1935--1936 a fair percentage

is naturally desired by the share-holders and any denial of the same by the Deputy Registrar is unjustifiable and this has led to the wholesale resignation only as a protest.

7. Apart from this the very idea of the Deputy Registrar to hold enquiry under section 38 of the Act is out of question, as the circumstances calling for such an enquiry have not arisen and much more so, I fear, will it be your present proposal of supersession. I doubt if the reports of the Deputy Registrar in respect of our bank affairs have side-tracked the superior authorities. The recommendation of the Deputy Registrar for supersession and the like action, is a tantamount to disregard and flouting of the unanimous opinion of the no official body who have been impartial in carrying their responsibilities throught in the interests of the Bank.

8. So. I hope it is not late in the day for a speedy reproachment and normal run of the bank through your intervention.

I beg to remain,
Sir,
Your most obedient servant,

Sd. B.Venkanabhat, 22/2.
S e c r e t a r y.

H o s p e t.
Dated 22-2-1937.

(T r u e C o p y).

B Venkanabhat
Ex Secretary
12/3/37

62 IV

No. F. 981/37. Office of the Registrar of Co-operative Societies, Madras.
Dated 26-2-1937.

M.R.Ry. M.Giriyappa Avl., B.A.,
Joint Registrar of Co-operative Societies.

Order under section 43 of the Madras Co-operative Societies Act VI of 1932.

Subject:-- Supersession - Hospet Co-operative Town Bank - Supersession of Committee ordered.

Read:- 1. Letter B 214/37 dated 5-2-37 from the Deputy Registrar, Bellary.

2. Notice under Section 43 of the Madras Co-operative Societies Act VI of 1932 No. F 981/37 dated 10-2-1937.

3. Reply dated 17-2-1937 from 9 directors.

4. Letter B.402/37 dated 17-2-37 from the Deputy Registrar, Bellary.

O R D E R:-

The Hospet Co-operative Town Bank Ltd., filed appeals before Government against the audit order of the Deputy Registrar Bellary for the years 1934--1935 and 1935--1936. The Government have not passed final orders on these appeals. The Directors of the Bank have in the meanwhile tendered resignation of their posts on the ground that all further agitation would prove futile. This hasty step has been taken by them without due regard to the interest of the Bank. In consequence of such resignations there has been a complete dead-lock in the affairs of the Bank. Attempts to restore a proper constitution by the Deputy Registrar, Bellary were of no avail as the members including the directors refused to participate in the enquiry under Section 38 of the Co-operative Societies Act sought to be held by the Deputy Registrar on 7-2-37. An abnormal situation was thus created.

pp 1-2 ante & pp 29-35 ante

pp 40-41 ante

2. A notice was therefore issued to the ex-directors individually to state their objections, if any, for appointi

p 56 ante

P.T.O.

an Inspector of the Department under Section 43 of the ~~M~~ Madras co-operative Societies Act VI of 1932 to manage the affairs of the Bank for a period of six months. Nine of the ex-directors in their reply state that they will withdraw their resignations if the audit certificate is revised providing for a dividend on Share Capital at 9 per cent This demand for a high dividend when there is need to build up an adequate reserves for bad debts is totally unjustifiable. To resign wholesale with aview to -- press the demand to the point of success is still worse. The result of this precipitate action has been the complete paralysis of the Bank, a situation which no prudent -- Banker would have allowed to arise. The dead-lock created by the resignation of the Directors cannot be allowed to continue. I therefore appoint Mr. N.B.Phakeera Sab - junior Inspector of Co-operative Societiesto manage the affairs of the Bank under Section 43 of Madras Co-operative Societies Act VI of 1932 for a period of three months -- from from 1-3-1937 under Section 43 (3) of the Act. I order that the Bank shall pay from out of its funds a salary of Rs.75/- per mensem to the ~~Super~~ Inspector besides the leave and pensionary contribution payable to Government on his behalf.

Sd. M.Giriappa
26-2-1937.
For Registrar.

(By Order)

Sd. A.Singara Raja.
27-2-1937.
M a n a g e r.

(T R U E C O P Y).

B Venkata Bhat
Ex Secretary 12/3/37

Pp 57-58 Bank

64

C.F. 30.

Co-operative **DEPARTMENT.**

Received ..... 19 *Registered* Da. 129 V 18.3.37

Subject.

Audit - Revision of audit certificates - 1934--35 and 1935--36 - The Hospet Co-operative Town Bank Ltd., - Bellary District - Appeal to Government - Remarks.

ENCLOSURES.
No.
Spare copies

B. No. 8327/36.

Station Madras, *Dated the* 15th March 1937. 19

From (Name) E. Austin Esq., I.C.S.,

(Designation) Registrar of Co-operative Societies.

To The Secretary to the Government of Mad---

Development Department.

Sir,

pp 24-25 ante

Ref:--Government Memorandum No.3866 II/36--2 dated 18/1/37 and endorsement 3866 - II/36-3 dated 1/2/37.

p 36 ante

I submit herewith an up-to-date copy of the bylaws of the Hospet Co-operative Town Bank Ltd.

flag (A)

vide para 1 of the O.M. at p 24 ante

vide para 2 of the O.M. at p 24 ante

2/ The honorarium paid to the Secretary and Assistant Secretary, during the years 1929--30 to 1933--34 is noted below:-

Year for which paid.	Net profits.	Honm. paid to Secy.	Asst. Secy.
1929--30	Rs.4,416 11 0	828 0 0	
1930--31	3,043 8 0	570 9 0	
1931--32	2,690 7 0	450 14 0	Rs. 225 7 0
1932--33	3,104 2 0	388 0 0	194 0 0
1933--34	2,487 9 0	310 15 0	155 15 0

Under bylaw No.55(2)(a) of the Bank, honorarium not exceeding 12½% and 6¼% of the net profits may be paid to the Secretary and Assistant Secretary, respectively. The bylaw is permissive, but not mandatory.

3/ The next question for consideration is whether the persons concerned have deserved the honorarium allowed by the bylaws. The establishment of the bank consists of two clerks costing Rs.52/- a month. They are reported to be not qualified for the work they have to do. The maintenance of accounts has been very unsatisfactory. The President of the Bank is a vakil and the Secretary is his personal clerk. Being a Vakil's clerk, the Secretary did not bestow sufficient attention to the affairs of the bank. His general qualifications are also reported to be meagre and inadequate for the responsible office he held. This is the case with the Assistant Secretary also. Consequently, there has been no control of the staff either by the Secretary or by the Assistant Secretary. The overdues have steadily been on the increase and the profits on the decrease. The fact that large sums are locked up in loans in which there has been no repayment for several years (as detailed in paragraph 5 of my letter dated 12/12/36) would show that the Secretary and the Assistant Secretary, the two executive officers, did not take sufficient and effective steps to ensure good collections and to safeguard the assets of the bank. They have thereby failed to discharge the duties attaching to their offices. I do not consider, therefore, that they deserve anything more than Rs.85/- by way of honorarium, as indicated below.

Net profits as declared, for 1934--35.	Rs.1,721	7	0
One-fourth to R.F.	430	6	0
Balance	1,291	1	0
Dividend at 5% on share capital.	1,205	5	0
Balance	85	12	0

This sum of Rs.85/12/0 can be paid, even now, to the Secretary and Assistant Secretary, without denying a reasonable dividend to the shareholders. The fact that in the bylaws of the bank, precedence is given to honorarium over dividend

dividend (Bylaws 55 (2) and (3)) does not prevent the general body from declaring dividend first and sanctioning whatever remain as honorarium, since these clauses of the bylaw are only permissiv In the present financial condition of the bank, the Secretary and Assistant Secretary cannot expect to get the amounts they got in the previous years.

4. The bad and doubtful debts as on 30/6/35, as estimated by the Board of Directors were Rs.2,209. The Deputy Registrar, afte a careful examination of the loans outstanding, estimated these at Rs.14,479/- as shown below.

54 loans in which there has been no repayment towards principal for over three years	Rs.9,529.
14 loans in which there has been no repayment since the date of disbursement	4,950
Total.	14,479

These figures were furnished in paragraph 5 of my letter dated 12/12/36 and they relate to the year 1934--35. These figures would show that the state of bad and doubtful loans on 30/6/35 was such as to justify the retrenchment in profits made by the Deputy Registrar. I felt, however, that some small remuneration should be given to the Secretary and Assistant Secretary for work done and accordingly asked the Deputy Registrar not to create Bad debts Reserve exceeding Rs.800/- for the next year, 1935--36. He has done so and against this audit certificat e also, the bank has preferred an appeal to Government, which has been sent to me for remarks, with Government endorsement No.3866 II/36-3 dated 1/2/37. I proceed now to submit my remarks on this appeal.

5/ No appeal was sent to the Registrar, in the first instance for the revision of the audit certificate for 1935--36. The grounds on which the Bank asks for a revision of this ~~account~~ audit certificate are materially the same as these put forth in respect of the ~~account~~ audit certificate for 1934--35. The Bank contends that the estimated bad and doubtful debts are only Rs.1,700/- and that it will be enough if provis is made to the extent of Rs.153/-. The bad and doubtful loans on 30/6/1936 as estimated by the auditor, however, amounted to Rs 13,928/-. This has been estimated after a very careful scrutiny

scrutiny of all the loans and after the inspection of some of the mortgaged properties, also. While the overdues of three years' duration and more amounted to Rs.8,860/- on 30/6/35, those on 30/6/36 were Rs.9,386/- and on 31/12/36, Rs.9,218/-. Hospet is an urban area and most of the members are persons with monthly income. They do not depend on agricultural income alone for repaying loans. Repayments should, therefore, have been made monthly in this bank. The fact that amounts exceeding Rs.8,000/- have been in arrears for over three years in this bank is therefore, sufficient justification to consider the loans doubtful of recovery. The retrenchment of Rs.800/- from the profits for the year 1935--36 has been made, keeping in view the large amount of doubtful loans, so as to spread the Bad Debts Reserve over a fairly large number of years. The interests of the bank warrented the retrenchment of Rs.800/-.

6/The other allegations contained in the appeal have no bearing on the revision of the audit certificate. Subsequent developments in the affairs of the bank have shown that all these allegations against the Department have been made with the object of creating a deadlock. It is significant to note that in paragraphs 5 and 6 of the appeal, the Directors refer to 'an unpleasant situation' arising if the audit certificate is not revised and also suggesting that the Department might take over the management of the bank. Even before the appeals pending with Government were disposed of, the Board of Directors resigned in a body and sent me a copy of the resignation. While they stated in their letter of resignation they they resigned as a protest against the treatment accorded to them by the Deputy Registrar; the resolution of the General Body accepting the resignation was to the effect that as no action had been taken on the appeal preferred to the Government it was futile to make any further agitation in the matter and that, therefore, the general body fully supported the resolution of the Directors to resign wholesale. The resignation of the Directors and its acceptance by the

pp 29-31 ante

pp 30-32 ante para 5, p 31

pp 40-41 ante

p 41 ante

p 40 ante

the general body show that they have prejudged the result of th appeal, which is not warranted in any circumstances. The fact that the general body and the Directors did not consider the question of election of a fresh Directorate or the effect of th resignation on the day-to-day administration of the Bank in th absence of a Directorate, also shows that they did not act with a sense of responsibility.

7. On receipt of the resignation, the Deputy Registrar attempted to hold an enquiry under Section 38 of the Act, in or to convene a general meeting and explain to the general body th real state of affairs and get a new Board of Directors elected, if possible. None of the members turned up for the enquiry, evidently at the instigation of the Secretary and other office bearers and the affairs of the bank were thus inevitably brough to a standstill. There was none to take charge of the Bank. It is clear that the Directors were irresponsible and wanted to force my hands. In the circumstances, I had to supersede the Board of Directors. I did so and have put in an Inspector of the Department to manage the Bank for three months, in the firs instance.

8. On receipt of the order of supersession, the Directors have offered to work the bank provided the audit certificates of the two years are revised, leaving sufficient profits to declare a dividend of 9 per cent, for both the years put togeth This will mean that they are now satisfied with a dividend of, 4½ per annum. As has been explained in paragraph (3) above, the net profits of 1934--35 as declared already, are sufficient to enable the payment of dividend at 5% per annum. The net profits declared for 1935--36 are Rs.1,668/8/0. If one-fourth of this (Rs.417-2-0) is taken to Reserve Fund, there will be a balance of Rs.1251/6/0, which is sufficient to declare dividend at 5% per annum, for this year as well. It will appear. there fore, that if the real grievance of the Directors is that the profits are not sufficient to pay dividend at 5%, it is unfounded. The rate of dividend now allowed in primary societie does not exceed 6% and this bank can consider 5% as a decent

decent dividend. It is obvious from this and from the conflicting contentions put forth at different stages, that what the Directors really want is not a decent dividend but the payment of a substantial honorarium to the Secretary and the the Assistant Secretary. As the Secretary, is the personal clerk of the President, who is a Vakil and as the Directors have been making the members to believe that a decent dividend can be paid only after honorarium in full is paid to the Secretary and Assistant Secretary, (taking advantage of the order of precedence in the matter of distribution of profits contained in bylaw No.55 which is not mandatory), they have been able to mislead the general body into acquiescing in the wholesale resignation and bringing about a deadlock. Finding that the drastic step of supersession has been resorted to, they now come round and offer to work the bank. This seems to indicate that they placed personal motives above the interests of the bank as a whole, to safeguard which the Bad Debts Reserve has been created from profits.

9. I do not think, therefore, that the audit certificates need be revised for providing a substantial honorarium to the Secretary and the Assistant Secretary who, as I have stated before, do not deserve it. It would also encourage the obstructionist attitude of the Directors.

10. The appeal petition forwarded to me with the endorsement dated 1/2/37 is resubmitted. pp 29-35 ante

I have the Honour to be,
Sir,
Your most obedient servant

For Registrar.

G.V.S.16.3.

70 Dev. 586 V
6.5.37

To

The Secretary to the Government,
Development Department,
Fort Saint George,
M A D R A S.

Sir,

We, the share-holders of Co-operative Urban Bank Ltd. Hospet, beg to record our emphatic protest against the highly arbitrary and unjust order of supersession of the Bank by the joint Registrar on very meagre and most flimsy grounds in-spite of vehement opposition by the ex-directors of the Bank.

2. We further beg to express our indignation at the manner in which the joint Registrar had deliberately endeavoured to distort the version of the directorate that they claimed an extravagant dividend of 9 per cent, when the directorate had made it absolutely clear that the said 9 per cent was for the two years 1934 -- 1935 and 1935 -- 1936 put together, which worked out to 4½ per cent per year which is below the rate fixed by the Registrar in his circular.

3. It is regrettable that the Government have not only delayed the consideration of the two appeals submitted by the directorate months ago, but also allowed ample time to the joint Registrar and Deputy Registrar in bringing the whole matter to a precipitate close by ordering supercession which is most unreasonable.

We, therefore request that the Government would be pleased to take the matter into their serious and anxious consideration with a view to assuage the present strained atmosphere between the share-holders and the Department and to order (1) the revision of the Audit Certificates of 1934 - 1935 1935 - 1936 and (2) to restore the management of the bank to the share-holders by cancelling the joint Registrar's order of supercession at the earliest possible opportunity.

We beg to remain,
Sir,

Hospet.
Dated 1937

K. Venkanna Gowda

72

Dept

Hospet Cooperative Town Bank - Audit Certificate for 1934-35 - Revision - Cno 3866 II

To Under Secy

Please see the petition at pp 1-2 CF with enclosures thereto at pp 3-15 CF and the Registrar's remarks thereon at pp 17-21 CF.

2 The Hospet Cooperative Town Bank earned a profit of Rs 2889-7-0 for the Cooperative year 1934-35. Out of this amount, the Deputy Registrar, Bellary, set apart a sum of Rs 1,168 towards the bad debt reserve of the Bank and declared the balance of Rs 1721-7-0 as the net profit for the year. After carrying one-fourth of the net profit to the reserve fund viz Rs 430-6-0, there is a sum of Rs 1291-1-0 available for distribution among members as dividend etc. The Directors of the Bank urge that this amount is not sufficient to pay dividend at 5 per cent and honoraria to the Secretary and the Asst. Secy and request that the audit certificate may be revised on the lines suggested in their letter at p 10 CF

para 1, pp 17-18 CF

para 3, p 2 CF

para 4, p 2 CF

3. It is stated that before 1934-35, the Bank declared a dividend para 2 of P.F of ~~the~~ not less than 5½ per cent. It is now prepared to declare a dividend of 5 per cent for 1934-35. The rate proposed cannot be considered too high. The amount required for paying dividend at 5 per cent is Rs 1201-2-0 and this p 10 of P.F can be met from the net profit of Rs. 1291-1-0. This leaves a small balance of Rs 89-15-0 which is not sufficient to pay honorarium to the Secretary and the Asst. Secy. The Registrar states that this is the real cause of all the discontent para 2, p 19 of P.F that has arisen and has resulted in the filing of the present appeal to Court Granting that it is so, it does not seem that there is anything unreasonable in the demand for honorarium, if the By-Laws allow it and if the office-bearers have deserved it. The Registrar may perhaps be asked to report whether and if so, what honorarium was paid in the previous years and why a reasonable honorarium should not paid for the year 1934-35.

4. The Bank questions the legality of the ~~Assistant~~ Deputy Registrar

in having set apart Rs 1168 towards the bad debt reserve while bylaw 55 (2) (d) contemplates allocation to that reserve only 5 per cent. The Registrar states that the bylaw in question relates only to the "net profits" as declared by the Registrar and that the Deputy Registrar as the officer issuing the audit certificate can retrench the divisible profits and declare the balance only as the net profits. The Registrar has not forwarded a copy of the bylaws of the Bank and he may perhaps be asked to forward it for reference.

para 3, p 19 CF

5. On the question of the actual retrenchment of the divisible profits for the purposes of the bad debt reserve, attention is invited to paragraph 5 of the Registrar's letter at pp 19-20 CF. At the instance of the Deputy Registrar himself, a Sub-Committee of the Board of Directors went into the question and scrutinized the doubtful loans at Rs 2.20 cr. The Bank has already a bad debt reserve available viz Rs 793 and provision has yet to be made to the extent of Rs 1,416. As against Rs 1,168

A at pp 6 CF and para 7, pp 6-7 CF

para 5, pp 19-20 CF

Set apart by the Deputy Regr, the Bank is prepared to allocate Rs 754 towards the bad debt reserve. The Registrar states that the bad and doubtful debts as estimated by the Sub-Committee are considerably less than what they are and gives certain figures in support of his statement. These figures, however, relate to the year 1935-36, while the Deputy Registrar's allocation to the bad debt reserve relates to 1934-35. The bad and doubtful debts may amount to more than the Sub-Committee's estimate but the provision of Rs 754 for the bad debt reserve suggested by the Committee does not seem to be too low. In para 7 of his letter at p 20 ante, the Registrar states that the question whether the provision for bad and doubtful debts ought not be spread over a number of years was considered but that it was considered necessary to retain the provision of Rs 1168 already made for 1934-35. He may perhaps be asked to report how much the bad and doubtful loans amounted to on 30-6-35.

2209
793
754
1547

6. The Registrar states at foot that he has asked the Deputy Registrar to make a smaller provision for bad

debt reserve in the audit certificate for ~~next year~~ 1935-36. It will, however, be observed from the resolution at p. 22 CF. since received, that a sum of Rs 800 has been provided for 1935-36 under this item and that the Directors propose to appeal against it. The question may perhaps be reconsidered when the appeal is actually received.

7. A draft on with reference to paragraphs 3 to 5 above is submitted for consideration.

p/s 21 Audit

15/3/37 15.3.37

17/1

17.1.37

pp 24-25 CF Issued as OM No. 3866-II/36-2, d. 18-1-37

p 26 CF No. 204-II. From the Secretary, Hospet Cooperative Town Bank, d. 13.1.37

To Under Secy.

The Secy, Hospet Cooperative Town Bank, has since forwarded his resolutions passed by the Board of Directors.

pp. 27-28 CF

p 27 CF On the first resolution, it has been resolved that the appeal to Govt. in regard to the distribution of profits for 1935-36 be held in abeyance. On the records are,

* vide pp 22-23 CF and para 6 above

p 28 CF a compromise between the Deputy Regr

~~26-37~~

and the Bank with regard to the distribution of profits both for the years 1934-35 and 1935-36 is referred to. The Registrar will doubtless report further on this point in this reply to the Qn. at pp 24-25 cf. which may be awaited

28/3/37 1/4/37 4/4

C No. 368 II. From the Secy, Hospet Co-operative Town Bank Ltd, Cr No 6 of 37 d. 23/1/37 } pp 1-3

To Under Secy

Please see the note at pp 5-6 above. The Hospet Bank has now preferred a petition under Section 57 of the Act in respect of the distribution of profits for the year 1935-36. The petition may be referred to the Regr. of CS. Draft Govt. is ready for approval

28/3/37 1/4/37

Issued as Govt. No. 386 II/36-3, d. 1.4.37 p 36 cf

C No. 510 II - Telegram from the Secy, Hospet Co-operative Town Bank, d. 4-2-37 } p 37 cf

To Under Secy

Please see the telegram from the Secy, Hospet Co-operative Town Bank, at p 37 cf. It may be communicated to the Regr who will doubtless report on the situation in this reply to

7 — 18

is the Asst. memos at pp. 24-25 CF and at p. 29 CF. A draft Endt is sent for approval

4.2.37 / 4.2.37

5/2

38 CF / pp 39-41 CF — Issued as Endt. No. 3866 II / 36-4, dt 5.2.37 Cno. 523 II - From the Secy, Hospet Cooperative Town Bank, Cno 9/37-38

To Under Secy.

Please see the further letter from the Secretary, Hospet Town Bk at p 39 CF and the enclosures thereto at pp 40-41 CF. These may also be communicated to the Regr. A draft Endt is sent for approval

6.2.37 / 7.2

5/2

42 CF / pp 43-47 CF — Issued as Endt. No. 3866 II / 36.5, dt 8.2.37 Cno. 713 II - From the Share holders of Hospet Cooperative Town Bank, dt 13.2.37

To Under Secy.

Please see the letter from the Share holders of the Hospet Town Bank at pp 43-47 CF. A copy of the letter has been sent to the Registrar direct. The file may be kept pending receipt of the Registrar's report.

Vide A at p 45 CF

Vide Opn at pp 24-25 CF
Endt at p 29 CF

22.2.37 / 23.2

23/2

CNO 804 II - From the Ex. Secy, Hospet Cooperative Town Bank, d. 22.2.37 41-42 CF

To Under Secy.

Please see the further communication from the Hospet Town Bank at pp 41-42 CF. It is addressed to the Registrar, whose report may continue to be awaited till 15.3.37.

3337 3.3

CNO. 100 V. From the Ex-Directors of the Hospet Cooperative Town Bank, d. 11.3.37
CNO 129 V - From the Registrar of CS., B No 8327/37 d. 15.3.37

To Under Secy.

The file relates to the affairs of the Hospet Cooperative Town Bank. Attention is invited to the note at pp 1-5 ante and the OM. at pp 24-25 CF. The Bank has once submitted a petition in respect of the audit certificate for 1935-36 also and its directorate resigned in a body on 3.2.37. On 10.2.37, the Registrar sent a notice to the Bank to show cause why its Committee should not be superseded and after hearing its reply, he appointed a junior inspector to manage its affairs under Section 43 of the Act for a period of three months from 1.3.37. The Registrar has now forwarded a detailed report on the petitions submitted by the Bank regarding

the revision of audit certificates for 1934-35 and 1935-36 and also the supersession of its Committee.

pp 50-54 of C

2. Reference is solicited to clause 55 of the bylaws relating to the Bank. The bylaw states that the net profits of the Society as declared by the Registrar every year shall be disposed of as shown therein. After the net profits are so declared, a sum not exceeding 5 per cent may be carried to bad debt fund, if the general body so wish; under clause (2) (b) of the bylaw

top of p 3 of (A)

~~the bylaw is therefore open to the Registrar to retain the divisible profits for a specified sum and declare the balance alone as the net profits.~~ There is nothing

cp para 3, p4 of C

illegal about the action of the Deputy Registrar in having set apart certain sums towards the bad debt reserve ~~from the divisible profits~~ before declaring the net profits of the Bank for the years 1934-35 and 1935-36. As regards the need for effecting cuts in the divisible profits for bad debt reserve where there is

55(2)(b) at p8 of (A)

provision in the ~~bylaws~~ bylaw itself for allocation of to that reserve at a rate not exceeding 5 per cent from the

net profits, it is said that the 5 per cent appropriation may not yield an sufficient amount and even this may or may not be provided by the general body, as the bylaw is only permissive and not mandatory. The limit of 5 per cent also applies only to the allocation by the general body and not by the Deputy Registrar.

3. The following statement shows the position in regard to the profits of the Bank as per the audit certificates issued by the Deputy Registrar :-

	1934-35 Rs.	1935-36 Rs.
Total divisible profits of the Bank	2889-7-0	2468-8-0
Allocation to bad debt reserve by the Deputy Registrar	1,168-0-0	800-0-0
Net profits as declared by the Deputy Registrar	1,721-7-0	1668-8-0
Allocation to reserve fund at one fourth of net profits	430-6-0	417-2-0
Balance	1291-1-0	1251-6-0
Dividend at 5 per cent on share capital	1205-5-0	1205-5-0
Net balance	85-12-0	46-1-0

Total Rs 2542-7-0

* ⊗ The Registrar has not reported the exact amount required and the previous year's figure has been adopted

The Bank's complaint is that the net profits as declared by the Deputy Registrar after allocation of one fourth to the reserve fund are not sufficient to pay a reasonable dividend to share holders and honorarium to the Secretary and the Asst. Secretary

para 3 p 2 of

It will be observed from the above statement that if funds are available for declaring a dividend of 5 per cent, but there is only a small balance available for payment of the honorarium. The

p 8 of (A) Re Under bylaw 55 (b) (a), an honorarium not exceeding 12½ per cent of the net profits to the Secretary and 6¼ per cent to the Asst. Secy may be paid. The Registrar

para 2, p 24 CF was asked to state whether and if yes, what honorarium was paid to the Secretary and the Asst. Secy in previous years and why a reasonable honorarium should not be paid to them now if the persons concerned has deserved it. It will be seen from this reply

para 1, p 64 CF that the Secretary was allowed honorarium during the last five years and the Asst Secy during the last three years. As regards the question whether payment of honorarium is justified, attention is invited to paragraph 3 of the Registrar's letter at pp 65-66 CF. The Registrar states that the Secretary and the Asst. Secy have failed to discharge their duties properly and that in the present financial condition of the Bank they cannot expect the amounts they got in the previous years. The Registrar does not state that the

Secretary and the Asst Secy were different men in the foregoing years and hence for the retrenchment in the Registrar's reasons for the divisible profits by the Deputy Regr, the general body would in all probability have granted honorarium on the same scale for the years 1934-35 and 1935-36 also. If the Secretary and the Asst Secy are to be allowed honorarium at half the maximum rates prescribed in the bylaw, the amounts required are as follows.

	1934-35 Rs	1935-36 Rs
Secretary	107-9-0	104-5-0
Asst. Secy.	53-12-0	52-3-0
Total	161-5-0	156-8-0
Balance available	85-12-0	46-1-0
Net amount required	75-9-0	110-7-0

Total = Rs 317-13-0

If these amounts (to be allowed, they have to be) are deducted from the provision made for bad debt reserve for 1934-35 and 1935-36 viz Rs 1,168 and Rs 800 respectively.

4 With regard to the provision made for the bad debt reserve by the Deputy Registrar, attention is invited to paragraphs 4 and 5 of the Registrar's letter at pp 66-67 cf. The Registrar reports that the bad and doubtful debts are estimated at Rs 14,479 for

para 5, p66 of

30.6.35 ~~1,92,225~~ and at Rs 13,928 in 30-6-36 as against Rs 2,209 and Rs 1,704 estimated by the Board of Directors respectively. ~~In the circumstances now reported~~, the retrenchment in the directors' profits since the Deputy Registrar took charge of the Bank's debt reserve ~~does not seem~~ may be justified now. But it does not appear that the Dy. Regr. provided for the ~~to be excessive~~ for the purpose of 1934-35 after ascertaining the bad and doubtful debts ~~made~~ c/f. A-p c/f.

5. The events leading to supersession of the Committee of the Bank have been explained by the Registrar in paragraphs 6-8 of his letter at pp 67-69 ef. It is clear that when the appeals are still pending the Board of Directors acted precipitately by resigning in a body and as the day to day administration of the bank has to be carried on, the only course left to the Registrar was to supersede the Committee and to entrust the management to a departmental official

6. ~~The case is also for advice~~. The Registrar's explanation apart, (on) reading of the letter from the Bank and the (9.43) Regr's explanation leaves the impression that the Society's affairs were not handled properly in the first instance. The trouble seems to have originated on the question of payment of the

to the Secretary and the Assistant Secretary. The Dy Regr. seems to have held the view that they did not merit any and had reduced the profits by ~~diverting~~ providing a large sum ~~for~~ as reserve for bad and doubtful debts and had Thus indirectly made the Bank helpless in the matter. ~~[redacted]~~ It does not appear that the Dy Regr examined the ~~Board~~ loans ~~&c~~ before providing for bad and doubtful debts. If he had done this, all this trouble might not have occurred. His subsequent dealings with the Society to justify his action have irritated the members rather too much. A sympathetic reply may ease the situation for others.

bom
10-437

The problem before us now is how to restore normal conditions in the affairs of the Hospet Cooperative Bk. The Bk has been superseded & the R. The supersession has been brought about by mass resignation of Directors which in turn were brought about by the tactless conduct of the Deputy R of Bellary. All Govt officials who take up service in Cooperative organisations should receive Courtesy & Consideration at the hands of Cooperative Officials. From a perusal of the records

15 80

I must say that fact has been prominently its absence in all the dealings of the D. K.

& D. K the two points are that upto 31/1/37 nothing could ever induce till 1/2/37 to write a G. B. meeting of the B.K clearly puts himself in the wrong. Numerous instances have been given of the B.K of his hostile attitude towards the Directorate. I can not doubt that by a truthful handling of the situation the D. K could have avoided this deadlock which has now come into existence.

2. The solution of the problem is quite simple. There is no need to touch the bad debt reserve for 1934-35 & 1935-36. We can leave it as it is. Out of the divisible profits for these two years the Directors have to set aside a large proportion towards the reserve fund: they have to allocate 25% of the net profits towards this. The balance left over is Rs 1291-10-0 for 34-35 & Rs 1251-6-0 for 35-36 a total of Rs 2542-7-0.

See A next 10 approx.

Out of this a Dividend of 4½% for the year may be paid on share capital. The Directors have agreed to accept 9% dividend for 2 years together. The sum required for this purpose is Rs 2169.9.0 for both years. There thus remains a balance of Rs 2542-7-0 minus Rs 2169.9.0 i.e. Rs 372/14/- It has been suggested in the office that after the 2 years the Directors may be prevailed upon to accept 6% dividend for the next 2 years. This would leave a balance of Rs 1082/14/- for the two years. Out of this the S.O.A.S may be paid at half the rates allowed in the Brochure. The R is not debarred to payment over any appropriate full-time course.

2410-10-0 - 1-0
2409-0
2169.9.0

2542.7.0
2169.9.0
Rs 372.14.0

Please see App p Respn

At half rates we need only Rs 372/14/- for two years for both S.O.A.S.

-To 87

This can be paid out of the balance of Rs 372/14/- now will still be a balance of about Rs 50 which may be added to the General Reserve fund.

3rd I think this above suggestion provides a way out for all concerned Mr. R is very anxious about the Bad Debt Reserve. His or D not Cash. The Directorate is anxious about giving at least 4½% dividend & a fair remuneration to its servants. My suggestion is to pay them Officials their ~~debts paid~~ at full rate. I do think the Bank should be advised to revise the percentage allowed to its servants remuneration. The present scale is extravagant. Thus in one year as much as Rs 500 were paid from Income out of a profit of over Rs 4,000. He may make this suggestion to the Bank in their order.

4 The D. R. should call for a G. B meeting as soon as he can & see that a Directorate is elected. The BK has the Inspection Report for 3 months ago.

agree. Please draft
CA

10/4/37 S

To Under Secy.

Please see the Secretary's note at p 18 ante. The points for consideration are:

(1) Whether it is open to the Deputy Registrar to set apart himself any portion of the profits of the Bank for bad debt reserve, when there is specific provision in the its bylaws for allocation to that reserve by the general body at a rate not exceeding 5 per cent of the net profits; and

bylaw 55(2)(b) at top of page 8 of (A)

(2) Whether the Secretary and the Assistant Secretary of the Bank are entitled to the honorarium at the rates prescribed in the bylaws.

bylaw 55(2)(a) at p 8 of (A)

2. Item (1) above: According to section 37 of the Madras C.S. Act, 1932, audit is a statutory obligation of the Registrar. Sub section (1) of that section lays down: "The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year".

pp 14-15 of the Act not printed.

p 14 Und

Sub section (2) states that "the audit under sub section (1) shall include an examination of overdue debts, if any, the verification of the cash balance and securities and a

—do—

valuation of the assets and liabilities of the society". Under rule VII of the rules framed under the Act, every society shall prepare for each Cooperative Year in such form as may be prescribed by the Registrar —

p 4 of the Rules not in print

(a) a statement showing the receipts and disbursements for the year,

rule VII (1) first

(b) a profit and loss statement

(c) a balance sheet, and

(d) such other statement or return as may be prescribed by the Registrar. After the Registrar has verified these statements, he grants this audit certificate to the society.

rule VII (2) first

The first three statements mentioned above are appended to the audit certificate issued by the Registrar.

Vide pp 26-33 of the Seventh Annual Report of the Cell for Rural Management (Vaidyanathan Committee)

Under Section 37 (2) of the Act, the Registrar is responsible for the valuation of assets and the estimate of bad and doubtful debts due to a society is therefore a matter of considerable importance in audit. It is necessary that sufficient safeguards should be provided against the distribution of fictitious profits based on assets which may not be fully realised or which may be partially realised; and the provision for bad and doubtful debts is one such safeguard. Though limited liability societies carry one-fourth of the net profits to their reserve funds and these funds are

p 14 of S Act not in print

rule XII (a) at p 5 of the Rules not in print

intended to cover unforeseen losses, yet a second line of defence in the form of bad debts reserve has been considered necessary in order to strengthen the financial position of societies. This reserve is to be made to the full extent of such debts as are actually treated as bad, and doubtful debts are reserved according to their estimated value based on the circumstances of each case as by way of a percentage on the outstanding debts where the amount is not known. No bad debt reserve is created in rural credit societies working at a loss. The object of creating a bad debt reserve is to prevent distribution of profits. When a society is working at a loss, there is no need to increase the loss by making a bad debt reserve. Bad debts definitely known are, however, written off before the profits are arrived at. Auditors in the course of their audit prepare a list of bad and doubtful debts for every society. Every society has also to certify in its balance sheet which it prepares annually for submission to the Registrar as to what amount of the debts due to it is considered bad or doubtful and has. The Registrar takes account of this before declaring what net profit is available for distribution. The provision for bad debt reserve

Sp M in the last Govt's ord at pg 9 of GO No 1067 (Lb) dtd 1835

(D)

~~22~~

is shown ~~in the balance sheet and under loss~~ in the profit and loss statement and it is excluded from the net profit declared by the Registrar in this audit certificate.

× vide item X at p32 of this Report at (I)
✓ Item IV at p31 of (I)
Vide para 6 of his Audit Certificate at (I)

Bylaw 55 of the Harper Cooperative Bank ~~states that~~ runs as follows:-

p5 of (A)

"The net profits of the society as declared by the Registrar every year shall be disposed of as shown below:-

X

(1) twenty-five per cent shall be carried to the credit of the reserve fund;

(2) out of the remainder

(a) an honorarium not exceeding 12½ per cent of the net profits to the Secretary and 6¼ per cent to Asst. Secy may be paid

Note: Whenever the Assistant Secretary is not appointed, the honorarium intended for him may also be paid to the Secretary.

(b) out of the remainder, a sum not exceeding 5 per cent of the net profits may be carried to Bad debt fund if the general body so wish -

(3) out of the remainder, a dividend subject to a maximum of 9 per cent per annum on the paid up value of each share may be paid to members etc. etc."

It will be seen that the bylaw applies only to the disposal of net profits as declared by the Registrar and the ~~seems that the~~ action of the Deputy

Vide X above

It will be seen that the wording

Extract at pp 24 ante

of clause (2) of the bylaw was mandatory and that the society was therefore obliged to pay the honorarium. In the course of the judgment, Mr. Justice Venkataramana Rao

N at p625 of the Mad. Journal of Co-op. Journals

has observed that it was open to the general body to alter the bylaw but that while it was so altered, it was not open to the general body to withhold payment of the one-fourth of the annual profits. The general

Vide p1 of the Regd file at flag (D) i)

body of the society has in fact amended the bylaw to the effect that "an honorarium not exceeding 25 per cent of the profits and subject to a maximum of Rs 200 may be paid to the Secretary and Treasurer if the General Body so wish". This amendment was, however

Vide footing p1 flag (E)

registered only on 22.12.33 and hence therefore have no application so far as payment of honorarium for the year 1928-29, adjudicated upon by the High Court, was concerned.

It will thus be observed that

Extract p 24 ante

while the terms of the bylaw relating to Lakshmi Co-operative Printing Society, as it stood in 1928-29 were mandatory the terms of the bylaw relating to the

97 25.

Hospet Town Bank are peculiar in character. The High Court decision referred to does not therefore seem to have any application to the case of the Hospet Bank.

4. The remarks of the Legal Asst. may be invited on the two points dealt with above. If that Dept. considers it necessary that the Advocate General's opinion should be taken he may then be consulted

Asst 17/6/37 Com 18/6/37

The matter seems to me to be quite clear from the legal point of view in any case. There is no need to cause delay therein by an unnecessary consultation with Legal.

The S files to Accts Department. We can be informed in any Circulars issued thereon & why.

Ag 21/6/37

I agree that the Deputy Registrar was within his powers in setting apart a bad debts reserve before declaring net profits. But in this case he acted most arbitrarily in allocating Rs. 1,168 in 1934-35 accounts. Subsequent enquiry showed only doubtful loans aggregating Rs. 2.209. He could have at least then amended his certificate but he did not presumably because he wanted to cut the Secretary's and the Assistant Secretary's honorarium, as, in his opinion, they did not deserve anything. I am afraid the Deputy Registrar was wrong.

para 1, p 17 CF

para 8, p 7 CF & para 5 at p 19 CF

Further enquiries made in connection with the 1934-35 accounts showed doubtful loans amounting to Rs. 14,479. The Registrar too directed a lesser provision of Rs. 800/- towards bad debt reserve. The Registrar should then have amended the certificate of 1934-35 reducing the provision of Rs. 1,168 to Rs. 800. This he did not and I am afraid he too was wrong.

1935-1936 when bad debts stood at Rs 13,914.

Bal p 20 CF & para 4 at p 66 CF

The appeal or petition before Government is in respect of this allocation to bad debts reserve. It is not for Government in an order in appeal to say how the Bank should work its own by laws. This should be left to them. As to the bad debts reserve, if the enquiries since made did not reveal such unsatisfactory state of affairs as the ~~Deputy~~ Registrar has referred to, I should have been prepared to cut it down to a very low figure but it cannot be done now. But for the sake of consistency I would reduce it from Rs. 1,168 to Rs. 800 (in 1934-35 accounts) and leave it to the Bank to work out its own by laws as best as it can. In this view a draft is submitted for approval.

pp 1 & 2 CF & 29-35 CF

vide para 4 & 5 at pp 66-67 CF

D 31/

H.M(Dev). M.C.R 22.6.37

CA 22.6.37 Issue

DEVELOPMENT DEPARTMENT

D.F.17.

14/5/37 DRAFT FOR APPROVAL. 99

	Date.	Initials.
When received for fair copying ..		
When copied ..	21	
When examined..		
When signed ..		
When despatched.		

SUBJECT:—

CO-OPERATIVE SOCIETIES - Audit - Revision of audit certificates - 1934-35 and 1935-36 - Hospet Co-operative Town Bank Ltd. - Bellary Dt. - Representations - Orders passed.

READ AGAIN _____, dated _____ 19____.

" " _____ " _____ 19____.

READ *ALSO*:—

No 3866-II From the _____, No. _____, dated _____ 19____.

" _____ " _____ " _____ " _____ 19____.

" _____ " _____ " _____ " _____ 19____.

" _____ " _____ " _____ " _____ 19____.

Order ~~Resolution~~ Ms. ~~Roll.~~ No. 1484, dated 5/7/1937 19____.

Para 3, pp 6-7
Rev 3/1 29-30 CF

pp Hospet file
5/7

Para 1 30 CF
Mat 1 1937
Rev 2, 1/29 CF

The Board of Directors of the Hospet Co-operative Town Bank, Ltd., questions the propriety and legality of the action of the Deputy Registrar, Bellary, in setting apart a "bad debts reserve" out of the divisible profits of the Bank for 1934-35 and 1935-36 before declaring the net profits and also the need for setting apart as such as much as Rs. 1,168 and Rs. 800 out of the divisible profits of Rs. 2,889-7-0 and Rs. 2,468-8-0 for the two years respectively. Their point is that by-law No.35 of the Bank

(2)

provides for allocation as bad debts reserve up to 5 % of the net profits and that there is no need for the Deputy Registrar to make a separate provision on this account. Their grievance is that the net profits made available by the Deputy Registrar for distribution does not permit them to pay the honoraria due to the Secretary and the Assistant Secretary and dividend at least at 4½ per cent.

2. The Government observe that the by-law quoted by the Bank leaves it entirely to the discretion of the general body of shareholders whether or not to set apart any portion up to 5 per cent of the net profits as "bad debts reserve". Such a provision is absolutely essential in a financial concern like the Bank and Section 37 of the Madras Co-operative Societies Act indeed makes it incumbent on the officer who issues the audit certificate

to make such a provision before declaring the net profits of the Bank. In the circumstances, the Government consider that the Deputy Registrar's action in setting apart a bad debts reserve was perfectly legal and correct.

3. A difference of opinion is possible as to the amounts he so set apart. The Government observe that out of the divisible profits of the year 1934-35, the Deputy Registrar set apart Rs. 1,168 thus bringing the total under the head to Rs. 1,961 when the enquiries subsequently made revealed only doubtful loans to the extent of Rs. 2,209, while out of the divisible profits of the year 1935-36, he set apart a sum of Rs. 800 only when the ascertained doubtful loans then amounted to as much as Rs. 13,928. They also observe that though the

Registrar did not think it necessary to interfere with the audit certificate for 1934-35 in so far as this allocation was concerned he issued instructions to the Deputy Registrar to provide a lesser amount in the certificate for 1935-36. The Government agree that the allocation made in the certificate for 1934-35 was excessive in the light of facts that were then before the Deput Registrar. And they would have been prepared to reduce it substantially if the subsequent reports on the financial position and accounts of the Bank for 1934-35 and 1935-36 had been more satisfactory. After a full consideration of the various petitions and protests of the Bank and the orders and reports of the Registrar, the Governme direct that the provision made under bad debts reserve in the certificate for 1934-35 be reduced to Rs. 800 and the petitions of the Board of Directors be

1103

rejected in all other respects.

4. The Registrar is requested to see that the audit certificate for 1934-35 is revised accordingly, to instruct the Deputy Registrar to convene a meeting of the general body of the Bank as soon as possible and to see that a directorate is elected and normal conditions restored.

5. The Government feel that the Deputy Registrar could have handled the affairs of the Bank much more tactfully than he actually did. The Registrar is requested to communicate this view of Government to Deputy Registrar, Mr. U. L. Venkatanarasayya.

C. J. P.
23/6/37.

To M.R.Ry B.Venkanna Bhat,
Ex-Secretary, Hospet Co-operative Town Bank, Ltd., Hospet, Bellary Dt
(paras 1 to 4 only).

To the Regr. of C.S. (with copy of by-laws returned).

Flag (A).

Letter issued
6/7/37

Recd abo:

pp 1-2 CF	From the Secy, Hospet Co-operative Town Bank Ltd, CR No 41/36 d. 17.11.3
p 16 CF	Extr to the Regr of Cs No 3866 II/36-1, d 23.11.3
pp 17-21 CF	From the —do— No. B. 8327/36, d. 12.12.3 (No. CR 47/37)
p 22 CF	From the Secy, Hospet Co: Town Bank Ltd, d: 18.12.3
pp 24-25 CF	Com to the Regr of Cs No 3866 II/36-2, d. 18.1.37
p 26 CF	From the Secy, Hospet Co: Town Bank Ltd, CR No 47/36 d: 13.1.37
pp 29-35 CF	—do— —do— CR No. 6/37 d. 23.1.37
p 36 CF	Extr to the Regr of Cs, No 3866 II/36-3, d. 1.2.3
p 37 CF	Telegram from the Secy, Hospet Co: Town Bank Ltd, d. 4.2.37
p 38 CF	Extr. to the Regr of Cs, No 3866 II/36-4, d. 5.237
p 39 CF	From the Secy, Hospet Co: Town Bank Ltd., CR No 9 d. 3.2.37
p 42 CF	Extr to the Regr of Cs No 3866 II/36-5, d. 8.2.37
pp 43-49 CF	From the Share-holders of the Hospet Co: Town Bank L d. 13.2.37
pp 50-64 CF	From the ex-directors of —do— d. 11.3.37
pp 64-69 CF	From the Regr of Cs, B No. 8327/36, d. 15.3
pp 70-71 CF	From the Share holders of the Hospet Co: Town Bank Ltd, dates Nil.

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10/5/37

Post copy of telephonic message dated 6-5-37 No.B.8327/36

From

The Personal Assistant to the Registrar of co-operative societies, Madras

To

The Superintendent,
Development Department.

Ref:- Your T.M. dated 1-5-37 regarding amount required for paying dividend in the Hospet Town Bank Ltd.,

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The exact amount required for paying a dividend of 9 per cent for both the years (1934-35 and 1935-36) put together is Rs. 2278/- as detailed below:

Dividend at 4½% for	1934-35	Rs. 1130
do	do for 1935-36	1148
	Total Rs.	2278

(By order)

A.S. Rajan
7.5.37.
Manager.

R.N/7-5